A REVIEW OF POLICIES IMPINGING ON THE INFORMAL CREDIT MARKETS IN THE PHILIPPINES

by

Meliza H. Agabin

WORKING PAPER SERIES NO.88-12

September 1988

Philippine Institute for Development Studies

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYMS

ACES	Agency for Community Educational Services, Inc.
ACCA	Agricultural Credit and Cooperative Financing Administration
AGF	Agricultural Guarantee Fund
ALF	Agricultural Loan Fund
BAEcon	Bureau of Agricultural Economics
BCS	Bureau of Census and Statistics
BOP	Balance of Payments
CALF	Comprehensive Agricultural Loan Fund
CB or CBP	Central Bank of the Philippines
CBCI	Central Bank Certificate of Indebtedness
CDLF	Cooperative Development Loan Fund
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DBP	Development Bank of the Philippines
DER	Department of Economic Research
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
GNP	Gross National Product
GSIS	Government Service Insurance System
IRPP	Intensified Rice Production Program
IRRI	International Rice Research Institute
KB	Commercial Bank
LBP	Land Bank of the Philippines
M99	Masagana 99 Program
MBR	Monetary Board Resolution
MM	Money Market
MRR	Manila Reference Rate
NAS	National Accounts Staff
NBQB	Non-Bank Quasi-Banking Units
NEDA	National Economic & Development Authority
NFA	National Food Authority
NFAC	National Food and Agriculture Council
NGO	Non-Governmental Organization
NIA	National Irrigation Administration
NSC	Non-Supervised Credit
NSSLA	Non-Stock Savings and Loan Association
NTRC	National Tax Research Centre
PCARR	Philippine Council for Agricultural Resources Research
PCIB	Philippine Commercial International Bank
PD	Presidential Decree
PDB	Philippine Development Bank
PNB	Philippine National Bank
POR	Public Opinion Report
PVO	Private Voluntary Organization
QGFB	Quedan Guarantee Fund

RB	Rural Bank
ROSCA	Rotating Savings and Credit Association
SC	Supervised Credit
SGB	Specialized Government Bank
SGV	Sycip, Gorres and Velayo
SMB	Savings and Mortgage Bank
SSLA	Stock Savings and Loan Association
SSS	Social Security System
STD	Savings and Time Deposits
SWS	Social Weather Stations
TBAC	Technical Board for Agricultural Credit
TD	Time Deposits
TRC	Technology Resource Center
UP	University of the Philippines
UPBRF	University of the Philippines Business Research Foundation
UPISSI	University of the Philippines Institute of Small Scale Industries
UPLB	University of the Philippines at Los Baños
WAIR	Weighted Average Interest Rate

A RÊVIEW OF POLICIES IMPINGING ON THE INFORMAL CREDIT MARKETS (ICM) IN THE PHILIPPINES*

by

Meliza H. Agabin**

I. INTRODUCTION

About one-third of the Philippine population of voting age borrow. Of this, two-thirds do so from informal sources, which supply about 60 percent of all loans obtained by the borrowers. These global data taken from the surveys of the Social Weather Stations (SWS)-Ateneo University show that the informal credit market (ICM) is pervasive in both urban and rural locations and across economic classes. Other studies also suggest that Informal credit is similarly important in the peripheral and informal as well as the formal sectors of the economy.

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* This is part of a larger study conducted by the Social Weather Stations on the informal credit markets in the Philippines, supported by the Asian Development Bank (ADB) through the Philippine Institute for Development Studies (PIDS). The assistance of Dr. Joseph Lim (U.P. School of Economics), Dr. Mario B. Lamberte (PIDS) and Dr. Mahar K. Mangahas (Social Weather Stations) are gratefully acknowledged. Ms. Luisa Bote provided research assistance.

** Fellow, Social Weather Stations, Inc.

The country's financial market is composed of the formal and informal segments (Table 1). The role and primacy of the latter are not, however, at present captured in the country's statistics on the financial markets, which reflect only the data from formal institutions. Hence, how the economic performance and policies affect the behavior and performance of the ICM are not exactly known, except for a few fragmented pieces of evidence.

This paper reviews the monetary and credit policies that directly or indirectly bear on the rise and fall of the ICM, and describes the responses of the formal financial sector to the challenges of the informal sector and/or the opportunities in the financial markets.

The paper is divided into five parts. A description of the Philippine financial structure, formal and informal, is presented in Part II. Then, a discussion of the legal and policy framework affecting the financial markets is made in Part III to give a historical perspective and more detailed discussion of selected monetary and credit measures, in the context of broad economic developments, and their effects on formal credit decline. Part IV presents the responses of the formal sector to the monetary measures and challenges of the ICM along with the tendencies exhibited by the informal credit markets. Finally, the fifth part contains the concluding notes.

Lacking consistent time series data on the ICM, we have taken an approach that is basically descriptive and indirect.

We looked at the major policies that influenced the expansion or contraction of the formal financial sector covering the period 1970 to early 1987. Bank data were used to indicate directions of growth.

Existing surveys and studies were utilized extensively. Interviews with bankers and Central Bank officials were also conducted to enlighten us the formal-informal linkages and the operations of money shops. For this purpose, four officers of three commercial banks, three officers of two rural banks, two officers of money shops, and two officers of the Central Bank were interviewed.

The review of policies is undertaken within the broader framework depicted in Figure 1, on the assertion that the ICM is not isolated from the effects of the policies and performance of the real, fiscal, and foreign sectors.

II. OVERVIEW OF THE PHILIPPINE FINANCIAL STRUCTURE

The financial markets' dualism in the country is reflected in the existence of a relatively well-established formal sector with a parallel informal financial market. To define the scope of the informal financial markets, we have to define the scope of the formal sector. The latter is often synonymous with institutions and related arrangements which are registered with an authorized supervisory agent of the government. In the Philippine context, and for the purpose of this study, the formal financial sector includes all institutions which are under the supervisory and regulatory authority of or are reporting to the Central Bank of the Philippines (CB).

The Philippine financial system is best viewed in a continuum rather than as a rigid dichotomy between the formal sector and the informal one. At one end of the spectrum is an extremely formal and sophisticated structure, which serves the corporate market and has links to the domestic and international capital markets; examples of these are the universal banks, commercial banks, and finance companies. At the other extreme is a very loose, highly personal-based system of individual lenders where loan transactions may not carry interest charges nor even be recorded, and may take place as part of a survival or coping strategy of the borrowers. In between are substructures that mimic some features of the parallel system. In the formal system we find money shops, pawnshops, lending investors, and rural banks in the small deposits and/or small loans market. These institutions have the ability to adapt to the ways of the informal lenders - quick and simple processing, daily collection, personal contact. Their lending rates are also generally higher than normal bank rates.

On the other hand, certain ICM substructures partake of the features of the formal financial intermediary: they mobilize deposits, they have an organizational set up, standard rules and regulations, bookkeeping systems, and a place to transact business in. These are the credit cooperatives (or credit unions) and their federations, as well as other informally organized groups, including those which function as lending investors. Some of the credit cooperatives have capacities for lending bigger loans on the longer end and the structures have evolved their own "central banking" facilities (NRECA, 1987).

The Formal Financial System

Figure 2 shows the structure of the formal financial sector. Monetary regulations and supervision by the CB over this system extend over a wide range of areas - from entry and exit to qualifications of officers, banking days and hours, capitalization, reserve requirements against deposits, interest rates, loanable resource allocation, maintenance of financial ratios (e.g., risk to assets and past due ratios), branching, services and allied activities which financial institutions can engage in, and reporting requirements. The Central Bank exercises visitorial powers over them. Regulatory supervision is, however, not uniformly applied across all types of financing institutions. Some, like banks, are closely regulated by the CB; others are less regulated (like pawnshops) or virtually unregulated, as in the case of lending investors.

Excluding the CB and the insurance system, the total assets of the formal financial sector amounted to ₱331.6 billion (Table 1) by the end of 1986. This is 54 percent of the nominal value of GNP for that year. It has a network of outlets that has expanded satisfactorily since the 1950s, but which remains urban-oriented. It has two major substructures -- banks and the non-bank financial intermediaries (NBFIs). Banks must be incorporated entities registered with the Securities and Exchange Commission, while NBFIs can be a person or entity licensed and/or registered with any government regulatory body.

Banks. The commercial banks (KBs), including nine universal banks, dominate the whole system - in assets, presence, deposits, and loans. Their loan portfolio is preponderantly made up of collateralized loans (over 65%) for large corporate borrowers (over 70%), most of which have several other linked businesses with the banks. The significant physical presence of the KBs has been due to branching expansion. In the countryside, KB branches are mainly deposit takers conduiting funds therefrom to the industrial sector and urban locations (TBAC, 1985). Some commercial banks are given the authority to invest, own, and operate allied undertakings, such as finance companies and other financial intermediaries other than a commercial bank. A few commercial banks operate money shops which are engaged in servicing small loans and deposits in or close to public market places.

Within the banking structure, the small unit countryside banks, otherwise commonly known as the rural banks, have been important in the small loans and deposits market principally in the rural areas. Rural banking was an innovation adopted in the 1950s as a response to the challenges posed by the problems of agrarian unrest and the perception that informal lending practices contributed to such unrest. Although the RB system's resources are small compared to the total, their large number of outlets have reached more number of clientele in the countryside than any other bank. The RB system had been a major agent in channeling government funds to the rural sector especially in the 1970s when the government funded various lending programs.

Non-Bank Financial Intermediaries. The non-bank financial intermediaries comprise a tenth of the resources and one-fifth of the total loans of the entire formal financial system. Among the private NBFIs, the most dominant ones in terms of their share in the total resources and loans from the subsector are the investment companies, investment houses, and financing companies.

Pawnshops and lending investors (LIs) are the important ones in the small loans market. It requires only a minimum capital of ₱100,000 to set up one. Pawnshops have mushroomed all over extending micro loans on the basis of pawns, usually pieces of jewelry and other articles of value, often for emergency needs of households and individuals. Pawnshops are required to set up shops wherein to conduct their business and to provide safety facilities for the safekeeping of the pawns.

Similarly, lending investors (LIs) provide relatively small loans, many on clean basis for business and consumption purposes to small firms, businesses, and wage employees. They are active in offices, public market places, and town centers where they extend loans to small businessmen under a daily collection scheme. In offices, they extend salary loans which are collected through payroll deduction or by a collector who makes the regular rounds on paydays. They have very simple operations and employ 2-5 people.[1/]

As of end 1987, the average resources of an LI were less than a million pesos (₱772,686), while the average loan volume was about ₱600,000. Majority (74%) of the 443 LIs which registered with the CB toward the end of 1987 are under single proprietorship; 25 percent are corporations, and 1 percent, partnership.

In a way, LIs are a crossbreed of sort. They operate like the non-stock savings and loan associations (NSSLAS), which is another type of non-bank financing institution, except that LIs can go to other offices to extend loans. NSSLAs loans are limited to members only.

[1/] An officer of the CB-Department of Financial Intermediaries relayed the observation to this author that a number of informal money lenders have registered with the CB as lending investors. They may have been encouraged to do so by the liberalization of the financial policy on interest rates.

Virtually unregulated, the only requirements imposed by the CB on lending investors are a minimum paid-in capital of ₱100,000, the submission of the quarterly financial statements and annual reports, and the biodata of officers. To register with the CB, only the submission of the organizational papers is necessary, while only a municipal license is needed in the case of single proprietorship. The CB merely acknowledges receipt of requirements. LIs are not audited by the CB, either.

Pawnshops and LIs both expanded after interest rates were deregulated and very rapidly when the credit from the financial system became very tight and expensive during the period 1984-1987.

The NBFIs are not allowed to mobilize deposits from the general public. They can only raise funds from less than 20 lenders. However, duly incorporated NBFIs may be allowed to perform quasi-banking functions. By this, they can borrow, obtain, or raise funds from 20 or more lenders in the money market for the purpose of relending or purchasing receivables and other obligations. Financing companies became quite popular as an alternative place to invest surplus funds in the 1960s because they could offer higher returns than banks on investors' savings. The competitive edge of the financing companies and the like had waned with the full liberalization of interest rates in the early 1980s. Financing companies also suffered some reverses in recent years; a number of them were closed down by the CB. Their resources and loans had been declining substantially since 1984 (Table 2).

The Informal Credit Markets

Figure 3 depicts the ICM structure in terms of the degree of intermediation functions performed by the lenders, their major sources of funds, and linkage with other markets.

The ICM is first and foremost a reflection of the extended family system and social structure where kinship, friendship, and other personal ties rest at the foundation of the market. Popular sources were and continue to be relatives and friends (Table 3). Indeed, farm sector landlord credit, which supplied about one-fourth of farm credit from informal sources in the early 1960s is by and large based on personal and social relationships. Even the "suki" system whereby one continues to patronize a supplier of credit although costs may be lower elsewhere, reflects the personal ties of the parties which develop over time.

ICM Suppliers: Size and Some Characteristics. Nobody knows the total number of informal lenders, who are known to be a very heterogeneous lot. With the exception of credit cooperatives, ICM lenders are not registered with government authorities. There is free entry and exit into the market. Informal lenders conduct their business generally unfettered by any governmental regulations or reporting requirements on their lending transactions.

A broad segment of the ICM suppliers belong to the organized sector whose main businesses are registered with proper government authorities like the Securities and Exchange

Commission, the National Food Authority, and the like. Examples of these are found in the agricultural sector as well as in the industrial and services sectors, such as the poultry industry integrators, millers, traders, input dealers, shoe manufacturers, and overseas recruitment agencies. These licensed individuals and enterprises appear as a dominant segment of the ICM. Credit is made to their bulwark of clientele whose economic activities are tied up with the lenders' major economic interests. Lending or giving advances --in-kind or in-cash -- is an essential component integrated into their main line of business. This is to assure themselves either of the market for their produce or a supply of raw materials for their trade, or both.

In rural farming areas, linked arrangements are quite popular. Traders provide advances to farmers with prospects of payment from a forthcoming harvest. This is a form of informal contract growing arrangement. Within the formal sector of the economy, more formalized parallel system is exemplified in the poultry growing industry. Here, corporate industry integrators have been important in the supply of loans to their contract broiler growers. Integrators are engaged in the manufacture of inputs (chickens, feeds, etc.); production of broilers through their network of contract growers; marketing; and processing of the same. They provide loans in kind to contract growers and absorb the latter's produce for payment as stipulated under a formal and legally binding contract.

The dominant suppliers of informal loans nonetheless vary according to the important economic activity of the locale. Such dominance is readily apparent in the countryside. Years after the implementation of nationwide agrarian reform in rice producing areas, richer farmers, palay traders, and millers have become the most important lenders (TBAC, 1986; Floro, 1986). Coconut traders are the major ones in coconut producing areas where harvesting and trading take place every 45 days (Geron, 1988).

Farmers who are into trading and post-harvest services have become one of the major suppliers of credit in farming communities. Floro also suggests that additional access to land either by acquisition or under usufruct arrangements is a principal motivation to the farmer-lenders, thus linking the credit market with the land market.

Following our earlier distinction between what is formal and informal, it can be said that the government is also an informal lender (see Figure 3). Some non-financial governmental entities perform lending functions outside the purview of the monetary authorities. These informal lending activities are usually made as a component strategy of programs which they implement to reach target groups who often do not have access to bank credit. Lending is more often an ad hoc activity. It is governed by rules and regulations formulated by the agency. Some programs of lending utilized banks as agents. Such lending proliferated in the 1970s, abetted by the availability of treasury funds and external grants and loans.[2/]

The density of ICM lenders relative to population can be gathered from micro level studies of communities and farming villages. The number of informal lenders to population would seem to be higher than that of the formal system. It must be stressed, however, that the lending resources of the informal lenders are much smaller and that not all those who lend any amount of value are in the market as regular commercial lenders motivated by profits.

Two indicators of the latter are disclosed by the size of non-interest loans and by the number of commercial lenders. Non-interest bearing loans are relatively large, reaching up to 25 percent of informal loans in rural locale (see Sacay, et.al., 1985).

In terms of the number of commercial lenders, a number of studies shed light on this. Lamberte and Bunda (1987) found a total of 43 sources of informal credit in the community of Sapang Palay, a resettlement area in the fringes of Metro Manila. Ten (10) were rotating savings and credit associations or <u>paluwagans</u>, while 33 were other types of informal lenders. Of

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2/ Examples of the informal lender-agencies of the government are the Departments of Agriculture, Agrarian Reform, Trade and Industry, Social Services and Development, Labor and Employment, the Technology Resource Center, and the National Electrification Administration.

the latter, only 20 or about two-thirds were professional lenders. A. Mangahas (1987), in her data of sources of loans of overseas contract workers, also revealed that only two-thirds of the 12 lenders investigated were regular money lenders.

Geron's study of eight (8) rural villages likewise disclosed that between 59 and 79 informal lenders were servicing borrowers in relatively developed villages. In undeveloped villages, the range was between 11 and 63 informal lenders. However, this study did not isolate those lending for commercial profit.

ICM Funds Sources. Lending intermediated funds (deposits) is an exception rather than the rule and inheres only in the case of credit cooperatives and ROSCAS. By and large, there are informal lenders who rely mainly on internal funds while borrowings are resorted to principally by those with linked businesses.

Recent case studies point to greater reliance on own savings to support small scale lending operations. A. Mangahas (1987) reports this to be in all the 12 cases of informal lenders lending to overseas workers. A. Lava (1987) confirms this reliance on own savings in the case of all the individual lenders she investigated. Lava examined 24 informal lenders, which included 20 individual lenders, a credit cooperative, two (2) organized foundations and a ROSCA. Only the latter three (3) categories sourced their loanable funds from deposits of members (credit coop & ROSCA) and fund drives or donations (foundations). Only one (1) case of bank borrowing was reported by an individual lender. This reliance on own savings partly defines the limited size and scope of their lending operations.

Those informal lenders belonging to the formal sector of the economy have access to bank funds. More on this aspect will be discussed in Section IV.

Some informal lenders mobilize deposits, too, apart from the credit coop types. The mutual help schemes known locally as paluwagans (Tagalog) and among (Ilocano) are forms of credit cooperatives or rotating savings and credit associations (ROSCAS). A group of persons turn in the same amount of money towards a common fund and then take turns in using the amount collected. Deposits do not earn interest, but they serve the purpose of providing each member of the group with larger funds to meet extraordinary needs.

Cases of individual lenders raising deposits and/or equity contributions from others are disclosed by recent studies. Lamberte and Bunda found a lender who was mobilizing and paying very high interest rates (80% per annum) on deposits in a depressed community.

Other lenders operate like pawnshops, accepting as security pieces of jewelry, land titles, and other articles of value. These lenders, in effect, provide facilities for liquefying assets. Others operate like discount windows where checks are offered as collateral (Son, 1986; Lamberte & Jose, 1988).

<u>Size of Demand for ICM Credit</u>. Whether in rural or urban areas, in the poor or non-poor sectors of Philippine society, the ICM has a wide reach of clientele. A number of separate nationwide surveys at the household level in the 1980s give an idea of this. For instance, TBAC (1986) reported that 29.2 percent of 2.1 million small farm households were borrowers in crop year 1981-82. Of the borrowers, 60 percent got their loans from the ICM. The National Economic and Development Authority (NEDA, 1987) reported some 13.3 percent of 25.9 million low income population (bottom 30%) were borrowers anytime between 1975 to 1985. Seventy-nine percent (79%) of these were ICM borrowers (see Table 4).

In 1986, 32.2 percent of the 29.8 million persons of voting age indicated that they have borrowed money for income generating activities, with 65 percent of them going to the informal creditors (SWS-Ateneo, October 1986).

With a somewhat different question, 3/ the SWS-Ateneo survey in October 1987 disclosed almost the same proportions: 34.5 percent were borrowers in the past 12 months, and 66 percent of them from informal sources. By amount of loans taken, borrowings from the ICM totaled to ₱26.5 billion , or 59 percent out of ₱45.0 billion loans from all sources (Table 4a). From either the formal or informal credit markets, the bulk of the

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3/ The question: In the past 12 months, did the family borrow at least ₱1,000? The 1986 survey did not specify the amount.

borrowers obtained loans below ₱12,500 (formal, 83.0%; informal, 93.0%). Formal loans averaged ₱5,225 while informal borrowings averaged ₱4,039.

If the 1987 SWS-Ateneo survey data were disaggregated by locale, more rural than urban borrowers significantly go to the ICM (Table 5). The data further show that by wealth status, close to 60 percent of those borrowers who rated themselves "Poor" or in the borderline of poverty go to inormal lenders as against 47 percent of those who rated themselves "Not Poor." The poorest in the SWS-Ateneo surveys are found to have the least access to formal credit. In proportion to the population in the economic class, 33 percent of the poorest class borrow (rich to middle income group - 30%; poor - 32%), but significantly more of them (1986 - 75%; 1987 - 77%) borrow from the informal sources.

In the Philippine context, the foregoing data signify the importance of developing institutional capacities to cater to the small loans markets and of exercising caution in limiting the capacity of the ICM suppliers to lend through legislative measures (such as setting a limit on the interest rates of small loans). Such measures are bound to hurt the poor more.

III. THE LEGAL FRAMEWORK AND POLICY ENVIRONMENT

Significant events and policies in the Philippine economic and socio-political spheres between 1970 and 1987 are summarized in Table 6. The long march toward financial liberalization is highlighted, along with the fiscal and foreign sector developments.

The period covered by this review (1970-1987) was marked by: a) many years of generally expansionary credit from financing institutions with high growths in 1975 and 1978; b) highly contractionary credit in 1984 and 1985; and c) reforms that completed the process of liberalizing the financial system by early 1980s.

Table 7 summarizes the direction of major monetary policies and credits from banks. The general direction of formal credit are captured below from the data of real rediscounts and advances from the CB and real loans of banks, along with the mix of monetary and credit policies:[4/]

1971	-	1980	++
1972	.+	1981	++
1973	-	1982	+
1974	+++	1983	--
1975	++++	1984	----
1976	++	1985	----
1977	++	1986	+
1978	++++		
1979	+++		

[4/] The plus sign indicates expansion; minus, contractionary direction.

To appreciate the events which influenced the contractionary and expansionary movements of formal credit and the ensuing policy changes, the perspectives of history and the legal policy milieu would be helpful.

From a historical perspective, it may be said that monetary and credit policies were partly a product of the biases against informal money lenders and usurious practices. These biases had long been enshrined in a number of legislations in the country. Institutions were created to confront the "eradication" of informal lenders or, more modestly, provide alternative sources of credit to the broader masses of the population. Laws against usurious lending practices have been in the statutes since 1916.

Nowhere was the goal of supplanting or diminishing the influence of informal lenders more fiercely directed than in the rural areas. This was because of the perception that usurious practices that were tied to the feudal system contributed to a restive countryside.

The Philippine government's efforts to improve the access of the population to formal sources of credit had resulted in a supply-led policy agenda. Over at least the past three (3) decades, the policy mix had included the creation of new financial institutions under government control, and the priming up of formal lending by providing funds and guarantees under a regime of controlled interest rates. This policy track, though, had spelt a strong state presence and subsidies to maintain the program.

The Interest Rates Policy

A number of legislations pegged interest rates on loans from any source at certain levels. This provided a very rigid and inflexible policy framework. The law with the longest tenure, the Anti-Usury Law of 1916, set the tone by making it unlawful for anyone to charge interest above 14 percent on unsecured, and 12 percent on secured loans.

The Usury Law was virtually repealed in 1973 when the country's monetary authority was granted the power to revise the administrative ceilings on interest rates. This act marked the transition period toward full fledged financial liberalization. The policy of regulated rates.was completely abandoned in 1981 when the package of financial reforms adopted a floating rate policy.

The policy regimenting interest rates had been a major factor which contributed to the repressed and underdeveloped Philippine financial system. It had a negative effect on savers, thus slowing domestic mobilization of intermediated funds. It also limited the ability of banks to reach out beyond corporate clientele and big loans due to considerations of administration and risk costs. For instance, over the period 1970-1986, real rates of interest on bank deposits and loans were negative for most years (see Tables 8 and 9). Positive real rates on loans were achieved beginning 1981 after rates became market-oriented with the real spreads also positive. The exception was 1984; although nominal loan rates soared to about 40 percent, inflation rate was much higher at 50 percent.

Building Institutional Capacities

As late as the 1950s, laws creating the small unit rural banks (RBs) and the Agricultural Credit and Cooperative Financing Administration (ACCFA) were enacted to expand access to institutional credit in the countryside. Corollarily, branching by bigger banks was also encouraged.

Family-owned rural bank units were required only very small capital which the government matched on a 1:1 basis. By legislation, their scope of lending was limited to a group of clientele - the small farmers, defined as those with landholding of not not more than 50 hectares, and small businesses. More than 1,000 units were established over three (3) decades all over the country. Today, however, only some 895 operating units exist. More than half of them are in financial trouble due to a number of reasons, including policy-induced difficulties and high levels of arrears resulting from the system's participation in government-supported lending programs in the 1970s.

On the other hand, the ACCFA, later known as the Agricultural Credit Administration (ACA), was set up as a government non-bank financial institution tasked with the putting up of a substructure consisting of multi-purpose agricultural cooperatives through which it could channel government credit funds. Over 800 of these were quickly established. But after a brief period, most of them folded up leaving a large portion of unpaid loans behind. The ACA eventually bowed out of existence in 1982, with its former functions transferred to another government bank, the Land Bank of the Philippines (LBP).

The LBP was established in 1974 after the entire country's tenanted rice and corn lands were placed under agrarian reform. It is a specialized bank endowed with unibanking functions, but with a mandate to finance the agrarian reform program and address the withdrawal of landlord credit to farmers. Its record of support to the agrarian reform beneficiaries has not been admirable due to various constraints (TBAC, 1985). Land Bank credit to the agricultural sector had comprised only a very small portion of its total lending portfolio.

Money shops were also authorized in the early 1970s by the Central Bank to be operated by banks as the smallest unit of operation. Specifically they would service public market vendors to countervail the high rates of interest from informal sources.

A total of 177 money shops were established over the period 1973-1983. Some 113 continued to operate as money shops by the end of 1987. A few money shops had to close for a number of reasons whereas a good number became a staging point for exploring the market and establishing extension offices and/or branches. With the financial reforms of the 1980s, money shops became extension offices which can provide full banking services to their clientele.

The initiative to build institutional capacities had also originated from the private sector. More as a response to the regimented rates on interest, non-bank financing institutions developed and became very active financial intermediaries. They offered alternative instruments to the public outside of the purview of CB regulations and the Usury Law or the ceiling on interest rates. These institutions were, however, placed under the CB's regulatory authority in 1972. As earlier noted, a segment of the NBFIs comprise institutions that offer small loans to the public.

Interventions on the Supply of Credit Funds

The government employed several approaches to increase the supply of credit to the non-traditional clientele of banks and areas of investment which the government considered as priority. The rediscounting policies of the Central Bank played a key role here, along with fiscal policies allocating budgetary resources and external borrowings for special credit schemes, and forced allocation of credit resources which was imposed on all banks.

Rediscounting Policy. A liberalized and expansionary rediscounting policy prevailed from 1974 up to the early 1980s (see Table 10 and Figure 5). The rediscounting window became a source of first, rather than last, resort and was utilized as an allocative mechanism by the government.

Low cost funds were made widely available to banks for almost all types of investment areas identified as priority. The cost was lower than regular deposit rates. The rates on so-called preferred areas were even much lower so that the banks can make loans which are administratively costly and risky at no more than the legal ceilings.

A multi-tiered rediscounting policy favoring certain areas and institutions was in effect until 1985 when a single uniform market-directed rate, loan value, and ceiling on borrowings by banks was imposed on all types of loans and institutions. Rediscount rates were as cheap as 1 to 3 percent for high priority areas of government, which included agriculture. For the less preferred areas, loan papers could be rediscounted by banks at somewhat higher rates. The gross spread between the rediscount rates and the prescribed lending rates to end-users varied, but reached up to 9 to 12 percentage points in small loans programs.

The borrowing limits of banks at the Central Bank rediscount window were also at preferential rates for particular types of banks. Rural banks were allowed to borrow up to four times of their net worth plus three times the average of their savings and time deposits to expand their lending capability in the rural areas. This made the system highly leveraged and dependent on the government. Encouraged by the liberal funding available from special programs, the RB system sourced up to more than 50 percent of their loanable funds from the Central Bank particularly in the 1970s. This became a source of trouble for many RBs later on so that a rehabilitation program had to be formulated in 1986 because more than half of the RB system had incurred high past due obligations with CB.

The targeted lending-oriented policy at the CB rediscount window had aimed, among others, at the population with very low access to institutional credit. The net effect of the policy, however, was more in favor of the relatively well off who could afford to take out regular bank loans even without subsidy. Indeed, the bulk of the rediscount availments were obtained by commercial banks - not for those in the periphery of the economy, but for their usual corporate and fully secured loans (Agabin, 1986).

The cheap credit policy also derailed the savings mobilization of the rural banks as they became very dependent on government funds, and consequently fell into financial trouble when the rediscounting ground rules were changed in 1984 -- from liberal access and cheap cost to very restricted and market-oriented rates. The result had contributed to the drying up of formal credit to the small farming sector and a drift in the investment portfolio of rural banks to commercial, secured loans and securities. Securities became an attractive investment beginning 1983 at the expense of agriculture and industrial loans.

Special Funding. Budgetary allocations and foreign borrowings also supported a multiplicity of government-initiated credit programs. More than six (6) billion peso worth of treasury- and foreign-sourced funds were existing by mid-1987 for lending to various credit programs for agriculture. About 35 different agricultural credit schemes were in place up to 1987 under the so-called "supervised and special lending" umbrella. Under this, loan funds were made available through special funds and the Central Bank rediscount window at very low cost; technically, the use of the fund and the application of a prescribed production technology were supposed to be "guided" by the government's agriculture extension agents. The biggest and more well-known was the Masagana 99 rice production lending program. The performance of agricultural lending programs, however, has been very disappointing. Most had very poor repayments.

Various funding schemes were also put into place for the small and medium industry sector, for the less privileged in general under the Kilusang Kabuhayan at Kaunlaran (KKK), for the landless rural workers under the sponsorship of the Department of Labor, and others directed at specific types of clientele. In the 1970s, the state-owned PNB also implemented special credit windows for small loans to market vendors and to overseas workers, but both windows were closed after discouraging experiences.

Special credit programs had been at best only temporary in nature. With few exceptions, these programs ended up with large unpaid loans. By the mid-1980s, credit program lending had waned. Most of the credit programs had either suspended lending, had phased out, or were lending only token sums. About half of those for agriculture were consolidated into the Comprehensive Agricultural Loan Fund (CALF) in 1987 for an all-risk credit guarantee facility.

Masagana 99 Credit Program. An elaboration of the Masagana 99 (M-99) credit program at this point is being made for a number of reasons: a) Masagana 99 was the largest credit program in the countryside ever implemented by the government; b) it was able to reach about a third of the rice farmers and leaves a historical imprint in the farming villages and credit experience of farmers; c) it created a direct effect on the informal credit markets; and d) it triggered the problems which RBs find themselves in now.

The existing policy, socio-economic, and political milieu before the launching of the program in May 1973 will help place the program in a proper perspective.

The years immediately preceding the M-99 implementation were characterized by a number of significant events: a) contractionary monetary policy following a presidential election overspending in 1969; b) an unsettled socio-political climate that led to the imposition of martial rule in September 1972, by the then President of the Republic, whose first actions included declaring that all rice and corn lands tenanted by some 1.01 million farmers would be placed under land reform; c) natural calamities that reduced domestic food, specifically paddy, production at very low levels leading to long queues of rice consumers in the urban areas; on top of this, a global food crisis made importation of grains a difficult task 5/ and

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5/ Before an international forum, the then Secretary of Agriculture Arturo R. Tanco, Jr. related the government's difficulties in negotiating for rice imports: "We scrounged all over to get the rice supply we needed from the international markets. We had the money and we were willing to pay cash. But we found it very hard to get the supply even from our usual suppliers."

propelled grains into a commodity of strategic and political significance in the international arena. At the same time, however, a world export boom led to a large positive balance of payments (BOP) for the country and the biggest GNP growth in 1973.

Masagana 99 aimed to increase paddy yields and bring the country to a level of self sufficiency. The Philippines till then had been a perennial rice importer. A fertilizer-responsive rice technology was available. The credit program could fund more farmers to adapt it. Thus, the network of rural banks and branches of the PNB were mobilized along with the government's agricultural extension force. Low cost special "seed" funds and rediscounts from the CB were opened up to participating banks. A loan guarantee scheme was corollarily made to answer for any default due to natural calamities through the Agricultural Guarantee Fund (AGF) scheme. Farmers could get their loans without the usual bank collateral. Incidentally, it came at a time when credit withdrawal from the landlords would create a vacuum in rice farm financing.

Over its life span of 14 years, M-99 injected close to ₱6.0 billion loans to the predominantly small rice farmers in the countryside. Its scope of lending and coverage peaked during the first three (3) crop years. It was a downhill trend after as repayments deteriorated (Table 11; see also Figure 6).

The program had been assessed as a very expensive experience. Although it helped achieve rice sufficiency earlier, it had produced some adverse consequences on the participating banks (Sacay, et. al., 1985). Nevertheless, the influence of M-99 on formal credit access cannot be ignored. Program lending reached at least about a third of palay farmers at one time or another. TBAC, in a nationwide survey of small farmers, found that about a third of the farmers experienced borrowing from banks, of which some 40 percent did so through M-99. The program substituted for some informal credits for a time. When program lending declined, there was a significant , but not wholesale, shift back to informal sources. Among those who stopped borrowing from banks, four (4) out of ten (10) went back to the informal lenders (TBAC, 1986).

Credit Allocation Policy. In 1975, the law (PD 717) required all banks to invest 25 percent of their net loanable funds generated to agriculture, specifically, to the agrarian reform beneficiaries. Its enactment in 1975 was prompted by the same economic environment and policy concerns -- getting more funds to flow into the rural sector to support the agrarian reform program and food production recovery efforts - by getting the bigger banks into the act. PD 717 gave banks the option of direct lending or investing in government approved securities. A corollary deposit retention policy was also implemented. This requires that 75 percent of deposits generated in the region should be invested therein. The idea was to stem the outflow of funds out of the rural areas.

This wholesale attempt to increase the exposure of the banking system to agriculture had nil effect. The regional deposit retention scheme had not been effective either. In fact, the share of agriculture loans to the total loan portfolio even declined (Table 12). The other effect of the loan quota was to raise the cost of intermediation. This was because banks opted to put in a substantial portion (two-thirds) of their compliance to the agrarian credit quota in government securities, which earned less than alternative investments. The locked-in investments in securities served as an additional reserve which increased their intermediation costs (TBAC, 1985).

CB bills for the countryside. Significant economic events characterized 1974. The country experienced the first oil shock leading to a negative current account balance and a dwindling BOP. The growth rates in domestic liquidity and inflation were very high (Table 13). At the same time, however, loans from the banking system had the highest growth rate; outstanding rediscounts of the CB also increased by over 150 percent.

To siphon off excess liquidity in the system, the CB countryside bills (CBCIs) were issued. The issuance of the CBCIs was actually made as a means to remove excess liquidity in the urban areas and to redirect funds to the countryside through the CB's rediscount window. Investment in the CBCIs was also made an option to comply with the credit quota policy and the securities were made reserve eligible. The phase out of CBCIs had begun only in recent years.

The 1980 Financial Reforms

The financial reforms to finally liberalize the financial system and free the interest rates were approved by the then legislative assembly in 1980. The reforms were geared toward promoting efficiency in the system, under which financial institutions can provide a broader range of services and enhance domestic mobilization of long-term funds under a competitive atmosphere.

The move emphasizing domestic generation of funds followed a regime of heavy borrowing from abroad which saddled the country with a huge foreign debt of some $28.0 billion by the end of 1986.

The financial reforms also removed enforced specialization and introduced universal banking. The reserve requirements were also programmed for reduction such that it would eventually be down to 16 percent by July 1982. This did not materialize, however. Instead, reserves were adjusted upwards several times from September 1983 until they reached a high of 24 percent by April 1984 for commercial banks (refer to Table 7).

Implementation of the reforms was caught in a serious economic, financial, social, and political crises on the domestic front, and by severe recession abroad. The country's BOP worsened and was -6.07 percent of GNP by 1983.. Budget deficit ballooned, reaching - 4.3 percent of GNP by 1982. (see Figure 8).

The financial crisis which started in 1981 resulted in the government's control of six (6) major banks, and an increased demand for financing by the government. By 1982, currency creation, an inflationary source, was funding the budget deficits up to 72 percent of domestically-sourced funds. Foreign borrowings were funding up to 49 percent of the deficits in 1985. The government sector borrowings from deposit money banks also rose as a consequence, thus reducing the available funds for private sector loans.

The rise in reserve requirements was part of the monetarist approach to address the critical BOP problems and the high liquidity in the system. To further reduce base money and liquidity, the Central Bank virtually closed the rediscounting window and borrowed directly from the public and financial system from mid 1984 up to 1986. CB bills (known as "Jobo" bills) were sold at high interest rates that reached a high of 43 percent by October 1984. This tool proved to be a powerful and destructive intervention by the monetary authorities (Montes, 1987). By 1985, gross domestic credits to CB by deposit money banks were more than double the 1983 level.

The national government also borrowed heavily from the financial system to fund the budget deficits. High yield treasury bills were sold since foreign sources to finance budgetary deficits were also drying up.

The effects of the actions by the CB and national government were to reduce formal credit available to the private sector, raise the market interest rates on deposits and loans, dampen investments, and reduce the demand for formal loans. The economy suffered two years of negative growth and very high inflation in 1985 and 1986. A study estimates that the underground economy swelled during these years (NTRC, 1986). In the social and political fronts, the worsening instability and peace and order problems led to the final ouster of the dictatorial regime in February 1986.

IV. REACTIONS OF THE FORMAL AND INFORMAL SECTORS TO FINANCIAL MARKET DEVELOPMENTS

During the period 1974 to 1979, the response of the formal sector to the monetary and credit policies had resulted in significant growth rates in loans (Table 14). The ratio of real loans to GNP also rose from 1975 through 1983. It was a downhill trend thereafter; the performance of formal credit mirrored the bad state of the economy and the effects of very restrictive credit policies. By 1987, the real value of loans outstanding was equivalent only to the 1974 level.

By sector, the rural sector (proxied by agriculture) gained some but not at the expense of the non-agricultural sector. Improvements during the 1970s in the supply of bank loans to agriculture were evident in the rise of loans to output ratio. As in the non-agriculture sector, the credit crunch and high inflation rates pushed the supply level for agriculture to that of 1974-75 value.

Within agriculture, the temporary success of credit programs in pushing loans to farmers was evident in the reallocation of formal loans during the 1974-1979 period. The realignment favored the palay sector, reflecting the effects of the M-99 program. The palay loan to output ratio improved much, reaching 26.8 percent in 1979, but dropping to 4.9 percent by 1986.

On the whole, though, loans from credit programs composed only a small portion of total bank loans. In agriculture, they comprised less than 10 percent of total agricultural loans; they also reached only about 3 percent of the small farming population (TBAC, 1985).

Formal Sector Reactions to Challenges

We define the challenges as those arising from the: a) competition posed by the ICM; b) policy constraints; and c) financial crisis of the 1980s.

Competition from the ICM does not seem to be a threat to the formal system. Complementation more than substitution seems to be the case between the two credit markets. This is further explained by looking at the linkages and interactions between the formal and informal markets.

ICM Linkage With Banks. The linkages that exist between the formal and informal can be discerned in a number of ways. The ICM lenders are either borrowers from and savers with (or both) the formal system.

In 1978, more than half of the 163 rural informal lenders surveyed by TBAC (1981) in three (3) Philippine provinces were bank saver-bank borrowers or bank saver-nonbank borrowers, while three (3) informal lenders were at the same time owners of local banks. Eighty-four (84), or 52 percent, of these lenders were borrowers. Bank loans comprised close to half of their total borrowings, the bulk (four-fifths) of which came from commercial banks. Loans sourced from the informal sources amounted to only

5 percent, while loans from input manufacturers (or trade credit) comprised 15 percent.[6/]

A later study of 125 rural lenders operating in rice and coconut producing villages also found a relatively high degree of direct bank borrowing (Geron, 1988). Some 70 percent of the respondents obtained loans from banks. Such borrowings to augment capital are evidently tied to the lenders' trading businesses where lending is but a tool to assure supply.

Indirectly, therefore, formal institutions are supporting the money lending activities of the informal lenders. A great deal of trade credit originating in the formal sector ends up being lent informally.

Buenaventura, a rural banker, puts it aptly:

> "Many of the informal lenders are our bank borrowers. In our area these are clients in the trading business - all forms of agriculture trading (ramie, rice, copra, corn) - with which their informal lending activities are linked. They are prime clients with collateral. In effect, they serve as conduits of bank funds to reach those with limited or no direct access to the bank."

<u>Complementation</u>. In the absence of trend data on ICM, we can at best deduce the competitive interactions between the ICM and the formal markets from our interviews with bankers.

6/ TBAC, 1981, Table 78, p. 100, as corrected.

Bermudez articulates the viewpoint of the commercial bankers we interviewed, emphasizing that informal lenders are not bank competitors, rather, they complement the lending activities of the commercial bank:

> "The informal lenders operate in a different segment of the market. The bank's market lies largely in corporate and commercial accounts which are generally fully collateralized. In fact some of the informal lenders are, in effect, conduits of bank funds; this is the case with the poultry industry integrators. Our corporate clients secure working capital loans which they use in making advances to their contract growers. Advances are in the form of chicks, feeds, biologics, plus technical assistance. The same is true with our big grain miller and trader clients who provide advances to the paddy farmers in the regular course of their business.
>
> The bank is also a co-financier with the integrators. This is the case with some of our borrowing clients like the prawn and broiler producers, who are contract growers with the industry integrators. These informal lenders then are, in effect, giving business to the bank. Moreover, they become calibrators of credit risks and make lending possible for the bank. They also become depositors."

The foregoing discussions indicate the presence of a strong linkage between certain segments of the formal and informal markets. They also spell role complementation between the two markets. Complementation is also shown in the findings of a study of small and medium urban-based enterprises in Metro Manila and three (3) other regions of the country: formal sources supplied most long-term loans, while informal lenders provided most short-term credit to the entrepreneurs (ISSI, 1985).

Looking at complementation in a broader context, the ICM provides smaller and shorter maturing credit to the economy and to clients who have very limited or no access to formal finance, while the larger bank loans concentrate on the longer term credit with acceptable collaterals.

An area of substitution - where the expansion of one takes place at the expense of the other - between the formal and the informal seems present only to a limited degree in a segment of the loans market. This is the small loans market wherein pawnshops, money shops, lending investors, and rural banks encroach into. About 80 percent of the loans of pawnshops to firms and households, which need quick liquidity, amount to ₱500 and below. The average loan size of rural banks is also relatively small. For a time money shops, by regulation, could not grant loans to storeowners and stallholders for operating capital and/or inventory financing in excess of ₱10,000. This was later increased to ₱20,000, but later lifted when a CB policy in 1983 converted all money shops into extension offices.

Many rural banks have, in effect, become money shop operators since the floating rates policy was adopted. Abelardo the general manager of a rural bank located in a commercially busy town in Nueva Ecija, a province north of Manila, describes the element of competition in the context of his bank's recent foray into the territory of the informal lenders:

"The bank directly competes with informal lenders in certain loans market --like those of the small storeowners and stallholders in the public market and other retailers with <u>puwesto</u> (store space) in the town. We started to give loans to these types of clients two years ago. At that time the fixed ceilings on interest charges had been removed. This made it possible for us to position our interest charges relative to our costs and perceptions of risks to service small loans. We prefer to lend to those with <u>puwesto</u> rather than to the ambulant traders, primarily for loan security reasons. These loans call for a daily collection scheme. Since our bank is close to the public market, we geared this part of our lending operation in the manner of a money shop.

We also copied some of the methods of the informal lenders. Processing is done within 24 hours. Only two co-guarantors are needed. We are also fast in collecting which is done by a bank personnel who does the rounds daily. Our interest rates on these small loans are also influenced by the informal lending rates. We charge between 50-60 percent per annum. This is more than double our normal interest per annum (24% presently) on collateralized loans. But this is only half of the nominal 10 percent per month that informal lenders make in the public market. We are very selective. We have to be because we know the informal lenders are there. Some of our clients are at the same time borrowers of the informal lenders. These lenders keep us on our toes and have made better and more efficient bankers out of us."

Abelardo was, however, also quick to add that his bank and the informal lenders complement each other in a number of ways.

First, the bank services the deposits of informal lenders, enabling the bank to use such funds. He cited the specific cases of at least three (3) mobile, motorcycle-riding money lenders of Indian descent. Known in almost all locales as the "bombays," these lenders have become quite ubiquitous in the informal credit markets. They have large bank deposits -- up to ₱100,000 according to Abelardo -- and their daily collections get to be deposited with the rural bank.

Second, some of the bank clients in the market place borrow additional amounts from the ICM. This happens since the bank may not be in a position to accommodate these borrowers' loan demand for operating capital. Usually this is due to the bank's assessment of the repayment capability of the borrower or internal bank policy on loan ceilings. Thus, as in the case of the commercial bank, the rural bank becomes a co-financier with the informal lenders on comparatively smaller loan requirements.

Moreover, those screened out in the selection process of formal institutions services become a market of the informal lenders. The case of the credit clientele in public markets, where money shops of banks were allowed by monetary authorities to be set up to service market vendors, will illustrate the point. Experience over the years and internal bank policy shifts have made some money shops very selective. They also no longer grant loans below a certain loan size because doing so is administratively more costly. Similarly, they have tended to pay more attention to loan securities, whereas before loans were made on clean basis.

In one urban public market in Metro Manila, a commercial bank money shop which had been operating since 1973, has ceased lending to vendors of perishable goods (vegetables, fish, fruits) "because they require small loans (below ₱5,000), and what they sell are not suitable for chattel mortgage." Those excluded in the selection process are serviced by the other informal lenders, including some ten (10) five-six operators, and a credit cooperative. Around 60 percent of the credit demand in the public market is estimated to be served by the credit cooperative. This cooperative offers the lowest interest rates to members, much simpler processing requirements compared to the money shop's, and a variety of product lines including loans for operating capital, and loans in kind like electrical and other household appliances.

It can be said that certain financial innovations had sprung with an agenda of reaching segments of the traditional market of informal lenders. This was one of the motivations for pilot testing the money shops in 1973. Money shops are the smallest unit or "scooping station" of the bank. The Philippine Commercial International Bank (PCIB) pioneered the concept both to address a social concern and to exploit a market opportunity in the small credit and deposits markets. The monetary authorities responded to this by granting flexible and longer banking hours to grant loans and accept deposits only, higher monthly service fees, and by making changes in policies to enlarge the territorial and clientele scope of money shops over time.

<u>Bank Responses to InterestRates Policies</u>. On the matter of monetary policy constraints, the regulated interest rates policy prior to deregulation had been creatively addressed by the formal sector. These creative responses in effect transformed an

otherwise formal practice into informal. On top of the ceiling rates allowed, banks collected add-ons, like undisclosed service fee, inspection fee, discounting of interest, charging straight yield on amortized loans, frequent impounding, and requiring compensating balances or deposits for loan takers.

The market-oriented policy now in place has given banks the freedom to charge rates according to their internal cost structures, the type of clients they service, and the competitive rates in the market. This is seen in Table 9. Indeed, by 1987, banks' real rates show a rather wide band between rates on loans and deposits.

Certain government policies, however, have the effect of raising the cost of credit from formal sources. The 5 percent gross receipts tax on earnings from loans and the PD 717 allocation raise the intermediation costs of banks.

Reactions to Financial Crisis

A segment of the formal sector had reacted positively to the financial crisis of the 1980s. Among these are the pawnshops and lending investors. Both expanded rapidly and had high positive real asset growth in 1985 and 1986 (Table 15). By contrast, the banking system suffered negative growth rates. The liquidity problems and declining purchasing power encountered by households, small firms and fixed wage earners have given an opportunity for small intermediaries to provide credit. Such development, however, was also a response to the floating interest rates.

On the other hand, the reaction of the government to the financial crisis and decline in credit to particular sectors was to try out certain innovations. By early 1980s, the rural banking system was already paralyzed. The state-owned Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP) had virtually stopped lending, the rediscounting policy framework had changed, and bank credit to the small farm sector had tightened. These prompted the government through the then Ministry of Agriculture and Food to embark in 1984 on a funded lending scheme using the informal lenders as conduits. Under the modified programs for rice (Intensified Rice Production Program, 1984-87) and yellow corn production, the millers, traders, input suppliers as well as the government's rice and corn marketing agency, the National Food Authority (NFA), were tapped to retail loans to farmers. The banking system was used as processing agents with very little risk exposure. The informal lenders had to be accredited by the government agency first. They were to lend the money to a list of identified borrowers according to program lending guidelines. Reports on their lending were also to be submitted for monitoring purposes. The experiment, though, was short-lived, ending by mid-1987. An assessment of the scheme found that funds from the lending program merely substituted for the moneylenders' own resources (Esguerra, 1987).

The 1986 presidential elections also tried to revive the supply of credit to the rural sector by using government loans to the cooperatives as a political tool. It was to be a feeble attempt at best. The party in power lost and not all the loans promised got released.

ICM Responses to Government Policy and Formal Financial Market Development

To signal the responses of the ICM, a number of indicators will be described, to wit: the percentage of loans from the informal lenders, interest rates, and changes in structure.

Informal Borrowing Trends. Farm and rural household surveys conducted nationwide offer a clue to the trend of informal borrowings through time.

The rural/farm borrowings summarized below suggest both a decline in proportion of population borrowing and loans taken from informal sources over the last four (4) decades (details in Table 16). In terms of value of loans, informal borrowings had generally also exceeded the amount of informal credit, except in the 1981-82 survey. The 1981-82 survey was done at the homestretch period of farm lending programs and at the onset of the financial reforms and may explain the greater volume of loans from the formal sources.

Period	Percent Borrowing	Credit Source Formal	Credit Source Informal
I. Farm Sector	- - - - - - -	(% of no. of loans)	
1954-55	75.0	12.0	88.0
1957-58	87.0	13.0	87.0
1960-61	45.2	8.0	92.2
1981-82	29.2	40.2	52.8
II. Rural Sector	- - - - - - -	(% of no. of borrowers)	
1986	33.0	31.0	67.0
1987	36.0	20.0	74.0

Adequate information on what happened during the succeeding years up to 1985 when formal credit became very tight is not available. At a more micro level, however, studies of rice farm villages point to very high levels of informal borrowings. Looking at the rural dimension, the SWS-Ateneo 1986 and 1987 surveys indicate a rise in borrowings and increasing share of the ICM in 1987 . In contrast, borrowers in urban areas outside Metro Manila experienced greater access to formal credit. Investments had risen during 1987, with the urban areas experiencing greater resurgence in economic activities. During the year, a number of commercial banks also started a more aggressive marketing of bank services outside Metro Manila.

Structural Changes. Structural dynamism characterizes the ICM, with economic factors and shifts in policies marking their influence on the changes over the short and long terms. An example of the short term change is depicted in the rice farm credit when the M-99 program loans reduced to some extent informal lending for a brief period.

Three changes in the countryside have made a long term imprint in the ICM structure, namely: the spread of rural banking , the changes in rice technology, and the agrarian reform program under which some 1.02 million former rice and corn tenants had become either holders of lease or certificate of land transfer by 1987. Farmers now play a leading role in the ICM, along with traders. The role of the landlords has receded. In the most recent surveys of ICM lenders in rice and coconut farming areas, up to half of the informal sources were farmers (Geron; Armenia, 1988).

More variations in ICM arrangements have also appeared as a reaction to innovations from the organized sectors and the financial liberalization. Situations of tight credit had also brought to the surface more entrants in the ICM. The history of money lenders during the period 1967 to 1978 is provided by a TBAC study. It showed that the decline in formal credit to the palay sector brought in new informal lenders, five (5) years after M-99 was introduced as shown below (see also Table 17).

Total No. of ICM lenders, 1978	-	163	-	100.0%
a. No. lending in 1967	-	94	-	58.0%
b. Entrants bet. 1968-78	-	69	-	42.0%

More recent studies by Mangahas and Lava also found about half of the informal lenders as being relatively new in the business. They became lenders only from 1982 onwards, which are characterized by years of contractionary credit in the formal financial sector.

The credit cooperative sector which has been growing on its own steam has also made creative adaptations of "central banking" since the 1970s to meet the growing demand of members. Central banking by federations of cooperatives mobilizes and interlends funds to member cooperatives generally for relending to individual members. The interlending facilities became much more important during the crisis period of the 1980s as liquidity pressures were felt by members of the cooperatives.

Interest Rates on the ICM. The informal sources are generally perceived to charge very high interest rates. It is, however, more accurate to say that there is a broad range of interest rates for a very heterogeneous market. From one end of the pole, we find "social" loans with zero or very low interest charges, moving up to rates approximating the formal institution charges (e.g., those from credit coops, foundations, and input dealers); at the top end of the pole, charges exceed 200 percent per annum. The high rates prevailing in the ICM reflect the excess demand for loans such that people will still take out loans even if the interest rate were infinite.

Lava, in her case studies, found one (1) rural ICM lender charging rates over 1000 percent per annum to the villagers, vendors, and handicraft makers, and one (1) urban lender with interest charges of 600 percent p.a. to public market stallholders. However, these are more the exceptions. The rates of 19 individual lenders were calculated to range between zero and over 1000 percent, three (3) urban and rural lenders were not collecting interest; nine (9) were charging between 35 and 85 percent; 20 percent per month or 240 percent p.a. were collected by four (4) lenders. Two (2) foundations were charging 20 and 29 percent p.a., respectively, the credit coop at 4.4 percent, while one (1) ROSCA, true to its form, was not collecting any interest from members of the group.

There are reasons to believe that the interest rates on informal loans may have declined over time, although we have limited data base for now to be conclusive on this. More formal institutions and outlets have been established from the 1950s to the present decade and the bank density ratio to population has improved. Formal institutions have been able to lend at higher rates since the lifting of the interest rates ceilings; some of them ventured into the small loan segment of the market. The rapid growth of pawnshops and lending investors after 1983 and the adoption of the money shop approach by banks since the early 1970s have made it possible for the formal sector to meet a portion of the excess credit demand.

The TBAC study of informal lenders in 1978 concluded that the interest rates on the ICM also respond to the penetration of the formal institution in the market, and the presence of the informal sources charging rates parallel to bank rates. Rates on "traditional" 7/ informal loans were found lowest in a province close to the urban Metro Manila. The province had a high density of formal sources and farm input dealers who were supplying credit in kind at rates similar to bank rates then.

The more micro level case studies dramatize the tempering effect of the availability of formal loans on the level of informal rates. For instance, the influence of money shops in the level of interest rates in public markets are gathered from

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7/ The "traditional" loans were defined to exclude informal loans with rates similar to formal rates, and non-interest bearing non-commercial loans.

interviews of persons in the money shop business. 8/ These informants share the perception that money shops have been instrumental in bringing down the informal interest rates in public markets. An officer of the commercial bank which operated the largest number of money shops provided some historical trend in informal rates in public markets they penetrated:

Circa 1973*	-- 20% /day
Circa 1974	-- 20% /week
Circa 1975-1976	-- 20% /month
Early 1980s	-- 5-10% /mo.

Under the regulated rate for money shops, this bank was collecting an effective rate of between 24-28 percent on clean loans. The ceiling rate then was 14 percent, but money shops were allowed to collect higher service charge of 2 percent per month, amortized daily on a straight basis, with interest collected front end. With unregulated rates, the money shop loans are levied an effective rate of around 32-44 percent.

The level of informal rates are wide ranging and are differentiated by certain economic factors. For instance, between developed farming villages and marginal areas Floro observed lower rates in the former. By size of farm, that is, between the small, medium, and large farm operators, lower average rates of interest are extended to large farm holders (Swaminathan, 1982) (Refer to Table 18).

8/ One rural bank money shop, one (1) commercial bank money shop, and an officer of commercial bank's money shop/branches operations.

* Marking bank's entry in the public markets.

The interest rates advantage enjoyed by the more commercialized and productive areas and large farms is perhaps linked with the volume of outputs informal lenders can capture from their farmer clients. In linked market arrangements, traders prefer to do business first with farmers with greater volume of production to assure them of the raw material supply. By and large, competitive pressure is likely exerted by various informal trader-lenders; but such pressure originates from the trading side of the business -- the need to vie for the same supply of goods -- rather than the lending side of it.

V. CONCLUDING NOTES

The informal credit suppliers continue to be the more accessible sources to the broader borrowing public. This is despite legislative and supply-led policies to reduce their size in the context of past environment.

Nevertheless, financial innovations and adaptations in the formal financial system have provided alternatives to the ICM sources to a certain extent. These adaptations have been evident in the smaller substructures such as the rural banking system, pawnshops, money shops, and lending investors. Through these substructures, the formal system has been able to exploit opportunities in and share a part of the informal credit markets.

The formal and informal markets are, however, largely complementary. They cater to what are essentially different segments of the financial markets. Various linkages exist, nonetheless, on both the resource generation side of the financial balance sheet and the lending side. Parallel innovations and linked market arrangements in the ICM have also made it possible to conduit formal loans to the informal borrowers.

Liberal rediscounting policies which provided easy access to low cost funds from the CB played a key role in the expansionary trend of formal credit in the 1970s. However, the poor state of the economy, huge budget deficits, very tight credit policies, and a troubled socio-political environment during 1984-1986 severely contracted the formal credit supply. It is noted that contractionary trends in the formal sector had provided opportunities for new entrants to the ICM. Moreover, the smaller substructures in the formal system had also reacted positively to the financial crisis as much as to the freeing of the interest rates.

In terms of spatial dimension, the rural areas experienced wider access to formal credit during the early part of the 1970's due to government credit program initiatives. It was only for a brief period however.. Policies which develop countryside banking, the agrarian reform program, and policies that encourage changes in the production technology have exerted a longer term effect on the rural ICM. The effects are translated to structural changes in informal suppliers, which find farmers as dominant lenders; in certain cases, the effect had been reflected in the moderation of informal rates.

Financial policies that regulate interest rates and the allocation of formal credit have been more harmful to the development of the financial system. The lifting of the interest rates ceilings have evidently produced a positive response from a segment of the formal system to meet the liquidity and operating capital needs of households and small firms. Cost increasing policies like the agrarian credit allocation and high reserve requirements are yet to be addressed.

There has been a rise in borrowings in the last two years and an increasing share of the informal credit markets. The active responses from segments of the formal sector, nonetheless, reflect the potential for expanding financial services to the sector with little or no access to formal intermediaries by institutions that are least regulated by the monetary authorities.

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Table 1

Philippine Financial System: No. of Institutions, Total Assets and Percent Distribution of Assets, End 1986 (Amounts in ₱M)

Institutions	No. of Institutions		Total Assets	
	Head Office	All Outlets a/	Amount (PM)	% Distribution
A. Central Bank	1	19 b/	276,515	
B. Financial System	3,002	5,979	331,586	100.00
B.1 Banks	1,024	3,614	289,397	87.3
Commercial Banks	30 c/	1,766	237,055	71.5
Thrift Banks	116	665	17,547	5.3
PDBs	43	213	5,579	1.7
SMBs	7	231	8,097	2.4
SSLAs	66	221	3,871	1.2
Rural Banks	875	1,083	9,103	2.7
Specialized Gov't Banks	3	100	25,693	7.8
B.2 Non-Bank Financial Institutions	1,897	2,283	40,995	12.4
Investment Houses	13	40	7,519	2.3
Financing Cos.	210	334	5,627	1.7
Securities Dealers/Brokers	124	124	945	0.3
Investment Cos.	82	82	10,154	3.1
Fund Managers	11	11	1,288	0.4
Lending Investors	289	300	237	0.1
Pawnshops	1,143	1,367	1,011	0.3
Money Brokers	5	5		
Gov't Non-Bank Financial Insts.	3 d/	3	14,088	4.2
Venture Capital	17	17	126	-
B.3 Non-Bank Thrift Institutions	81	82	1,194	0.3
NBLAs e/	7	7	16	-
NSLAs f/	74	75	1,178	0.3

Institutions	No. of Institutions		Total Assets	
	Head Office	All Outlets a/	Amount (PM)	% Distribution
C. Offshore Banking				
Units	22	22		
	--	--		
D. Other Financial Institutions				
Private Insurance Companies	130 g/		22,7283	
GSIS	1		20,678.3 g/	
SSS	1		33,828.2 g/	

a/ Includes head offices (HOs), branches or sub-branches, field offices, extension office, moneyshops, savings agencies, overseas offices (33%) of local local banks.
b/ As of September 1987; includes head office, four regional offices with full central banking functions, and 14 other CB offices with servicing functions.
c/ Includes nine (9) banks authorized to operate as universal banks.
d/ Includes National Development Company (NDC), National Home Mortgage Finance Corp., and the Phil. Veterans' Investment Dev. Corp. (PHIVEDEC)
e/ Mutual Building and Loans Associations.
f/ Non-stock Savings and Loans Associations.
g/ Data from CB, as of June 1987.

Source of Data: CB. 1986 Fact Book: Philippine Financial System

Table 2

Financing Companies: No. of Units,
Assets, and Loans, 1976-86
(Amounts in M Pesos)

Year	No. of Units (End Year) (A)	Total Assets (B)	Real Value (C)	Per cent Change (D)	Average (C/A)	Loans (E)	Real Value (F)	Per cent Change (G)	Average (H/A)
1975	319								
1976	348	4644.0	2537.8		7.3	3422.0	1870.0		5.4
1977	388	5852.0	2977.8	17.3	7.7	4190.0	2132.1	14.0	5.5
1978	419	7366.0	3432.0	15.3	8.2	5067.0	2360.8	10.7	5.6
1979	478	9743.0	3939.4	14.8	8.2	7926.0	3204.8	35.8	6.7
1980	531	11902.1	4163.3	5.7	7.8	9164.2	3205.6	0.0	6.0
1981	559	12123.3	3822.0	-8.2	6.8	9209.7	2903.5	-9.4	5.2
1982	537	12919.4	3756.8	-1.7	7.0	9723.4	2827.4	-2.6	5.3
1983	532	11810.8	3075.3	-18.1	5.8	8462.1	2203.4	-22.1	4.1
1984	545	9253.8	1616.4	-47.4	3.0	6560.3	1145.9	-48.0	2.1
1985	353	6164.0	915.1	-43.4	2.6	4411.0	654.9	-42.8	1.9
1986	334	5627.0	821.3	-10.3	2.5	4126.0	602.2	-8.0	1.8

Source: CB. Fact Book: Philippine Financial System, various years.

Table 3
PERCENT DISTRIBUTION OF LOANS FROM INFORMAL SOURCES,*
BY KINSHIP/SOCIAL TIES, VARIOUS STUDIES

Study/Scope/Reference Period	Indicator	Relatives	Friends/ Neighbors	Landlords
1. BCS, 1960-61 Farm families Nationwide	No. of loans Amount of loans	30.1 28.2	1.8 1.4	24.4 23.6
2. TBAC, 1977 Rice farmers Isabela, Bulacan, Camarines Sur	No. of borrowers	15.1	11.3	20.0 a/
3. Floro, 1983-84 Rice and corn farmers Cagayan, Nueva Ecija, Iloilo	Amount of loans	9.8 b/		2.9
4. ISSI, 1984 Business entrepreneurs Nat'l Capital Reg Regions 3, 4, 7	Amount of loans c/	78.0	15.9	NA
5. NEDA, 1986 Low income families Nationwide	No. of loans Amount of loans	30.6 22.1	22.1 18.0	9.0 7.9 d/
6. Gatchalian, et.al., 1986 Underground economic workers Manila, Pasay, Caloocan, and Quezon Cities	No. of borrowers	65.7 e/	NA	NA
7. Geron, 1987 Palay and coconut farmers Quezon Nueva Ecija Camarines Norte	No. of borrowers Amount of loans	22.7 24.0	34.4 37.2	.40 -

*/ Balance accounted for by other informal sources.
a/ Number of loans
b/ Friends and relatives
c/ Short- and long-term loans combined
d/ Employers/landlords
e/ Percent of total borrowers from both formal and informal sources

Sources:
1. Studies Nos. 1 & 2 are from: Sacay, Agabin, & Tanchoco. Small Farmer Credit Dilemma, 1985.
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Table 4
SUMMARY OF STUDIES INDICATING LEVEL OF INDEBTEDNESS
VARIOUS YEARS

Period Covered (Crop Year) a/	Author/Date of Publication or Release	Location of Study	No. and Type of Respondents	Percent Borrowing
1954-55	de Guzman (1975)	Nationwide	5,144 farmers	75.0
1957-58	Sapud (1958)	(Munoz) Nueva Ecija	78 rice farmers	97.4
1957-58	Sacay (1961)	Nationwide	400 farmers	87.0
1960-61	BCS (1963)	Nationwide	2,433,000 farm households b/	45.2
1967-70	Mangahas (1975)	Camarines Sur, Iloilo, South Cotabato	567 rice farmers	26.6
1970-71	Mangahas (1975)	Camarines Sur, Iloilo, South Cotabato	567 rice farmers	52.4
1969-70	Almario (1970)	(Minalin) Pampanga	97 farmers	95.9
1969-70	Balagot (1974)	Cotabato, Bukidnon, Davao Norte, Davao del Sur, Zamboanga del Sur	303 rice/corn farmers	44.2
1974-75	Octavio (1976)	Bulacan	120 M-99 farmer-borrowers	68.2
1977	UPBRF (1977)	Nueva Ecija, Davao	1,215 farm households	61.9
1977	DA (Aug. 1977)	Central Luzon, Ilocos, Bicol, Iloilo, Leyte	3,989 rice farmers	45.2
1977-78	Laopao & Latorre (1979)	Leyte	221 fishing households	18.6
1978	TBAC (1981)	Bulacan, Camarines Sur, Isabela	1,828 rice farm households	63.8
1978-79	Salundaguit (1980))	Leyte	120 agrarian reform beneficiaries	57.5
1979	Manalo (1979)	Cagayan, Isabela, Nueva Vizcaya, Kalinga-Apayao	240 cattle raisers	84.6
1980	Capistrano (1982)	Nueva Ecija	64 village households	64.1
1980	Santiago (1981)	Leyte	108 coconut farmers	52.8

Period Covered (Crop Year) a/	Author/Date of Publication or Release	Location of Study	No. and Type of Respondents	Percent Borrowing
1981	Swaminathan (1982)	Nueva Ecija	183 rice farmers Control area: (4 barangays, 86 farmers)	85.2
			ACES area: c/ (4 barangays, 97 farmers)	87.7
1981-82	TBAC (1986)	Nationwide	2,143,800 farm households d/	29.2
1983	Smith & Umali (1985)	Camarines Sur	69 rainfed rice farmers	14.0 e/
1983	Ranola (1984)	Abra, Cagayan, Camarines Sur, Masbate, Albay, Oriental Mindoro, Iloilo, Zamboanga del Sur, North Cotabato	90 farm villages	92.2 f/
1984	UP Institute of Small-scale Industries	National Capital Region Regions III, IV, & VII	230 business entrepreneurs	63.5
1985	NEDA (1987) 1985 Socio-Economic Survey of Special Group of Families	Nationwide	25.945 M low-income families	13.08 g/
1986	Ateneo-SWS Oct. 86 Survey Data	Nationwide	1,200 respondents of voting age (29.78 M voting population)	32.2 h/
1987	Ateneo-SWS Oct. 87 Survey Data	Nationwide	-do-	34.7 h/

a/ Refers to loans taken during the crop year, except otherwise indicated.

b/ Nationwide estimates of survey results; includes farm households cultivating 0.1 hectare.

c/ Agency for Community Educational Services. One purpose of Swaminathan's survey was to monitor progress in a small farmers' community organization project wherein ACES was involved.

d/ Nationwide estimates were derived from a survey of 338 farming barangays in 12 regions covering small farmers with landholdings of 7 hectares and less.

e/ Farmers were interviewed as to their survival strategies during disaster years. Another 37% of the respondents sought financial help from friends and relatives without interest during the period, a disastrous year due to frequent flooding and drought.

f/ Percentage of villages responding. Village key informants supplied data on local community characteristics. Seven villages did not avail of credit during the period.

g/ Borrowers anytime from 1975 to 1985. Percentage was projected to population of low income farmer-respondents in the bottom 30 percent of income classification.

h/ Percentage was computed using projected population weights.

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Table 4a.
Percent Disribution of Amount of Loans, 1987

Source	Amount (PB)	Percent Share
Formal	15.2	34.0
Informal	26.5	59.0
Mixed	3.2	7.0
Total	44.9	100.0

Source: SWS-Ateneo University. Oct. 1987 Survey Data.

Table 5

Distribution of Borrowers in Metro Manila, Urban, and Rural Philippines, by Source of Credit, 1986 & 1987 (in Percent)

	All Phils.		Metro Manila		Urban		Rural	
	1986	1987	1986	1987	1986	1987	1986	1987
I. Borrowers as % of total population in locale	32.0	35.0	33.0	36.0	31.0	33.0	33.0	36.0
Formal	10.0	10.0	11.0	13.0	10.0	16.0	10.0	7.0
Informal	21.C	23.0	20.0	22.0	20.0	15.0	22.0	27.0
Mixed	1.0	2.0	2.0	1.0	1.0	2.0	1.0	2.0
II. Per cent distribution of borrowers in locale								
Formal	32.0	28.0	34.0	36.0	34.0	48.0	31.0	20.0
Informal	65.0	66.0	61.0	62.0	62.0	45.0	67.0	74.0
Mixed	3.0	6.0	5.0	2.0	4.0	7.0	2.0	6.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: SWS-Ateneo University. Public Opinion Report Surveys, October 1986 and October 1987.

Note: In the 1987 survey, "borrowers" are identified as those having borrowed at least P/1,000 in the past 12 months. In the 1986 survey, there is no minimum amount specified.

Table 6
SIGNIFICANT EVENTS AND POLICIES, VARIOUS SECTORS, 1970-87

Year	Macro/General Climate (Socio-Political, External Developments)	Foreign Sector	Fiscal	Monetary	Agric./Industrial Sectors
1970		# 43% devaluation # reduction in selected tariff rates # export-oriented policy regime # 3rd balance of payments crisis occasioned by 1969 reelection spending			
1971					
1972	# Martial Law proclaimed in September			# Financial reforms adopted formally enforcing financial specialization	# Severe droughts in Mindanao & typhoons in C. Luzon pulled agricultural production down
1973	# Record growth in real GNP at 9.6% due to export boom	# Trade surplus as a result of commodity boom, esp. coconut and sugar # BOP surplus posted at $665 M	# Contractionary direction in gov't spending adopted to help offset infusion of liquidity from external sources	# Monetary Board given authority to prescribe max. deposit and lending rates; virtually repealed Anti-Usury Act of 1916. [Between 1974 & 1980, 4 interest rate reforms were carried out to mobilize long-term funds & to develop capital market.] # CB sale of CBCIs to siphon off excess liquidity # Preferential rediscounting policy for aggie credit program	# Most massive credit program for aggie sector (M99) was launched, rice sector # Nationwide agrarian reform program decreed (PD 27)
1974	# Inflation rate rose steeply to 34.1% # Worldwide recessionary & inflationary trends	# 1st oil shock; cost of oil rose by 245%	# Nat'l gov't budget surplus due to continued contractionary posture, creased customs collections due to expanded trade & imposition of premium	# 1974 marks the beginning of transition period toward financial liberalization to mobilize long-term funds for investments & to develop capital market ## Ceilings on short-term deposits increased from 6.5-8.0% to 8.0-11%; long-term deregulated	# M99 program lending expanded, reaching peak period during CY 1974-1975

Year	Macro/General Climate (Socio-Political, External Developments)	Foreign Sector	Fiscal	Monetary	Agric./Industrial Sectors
			duty on certain exports & BIR collections	# PD 717, agri-agra credit quota policy introduced making allocation of 25% of net loanable funds generated mandatory	
1975	# Recessionary & inflationary problems encountered by developed and developing countries since early 1974 continued	# Depressed world prices for exports & increased oil bills, resulting in substantial trade & BOP deficits	# Gov't deficit spending & borrowing expanded to buoy up the economy	# Demand stimulative measures adopted to offset drain due to external transactions # Credits from CB rose to 194% for preferred areas of investment; CB rediscounts served as liquidity source in monetary and credit systems	
1976				#CB circulars 492-498 to encourage long-term deposits, investments, & narrow spread between regular bank deposits/loan rates & money market transactions # Second interest rate reform took place as a response to the challenge posed by rapidly growing deposit substitutes & other high-yielding money market instruments: ##Savings increased to 7% ##TD increased to 8.5-12% ## Ceiling of 17% imposed on dep. substitutes, and reserve req't of 20% was introduced ## Interest ceilings on long-term loans increased to 19% p.a	
1977		# BOP surplus attained partly attributed to the rise in gov't borrowing	# Budgetary deficits; substantial rise in gov't foreign borrowing	# Interest rates reforms were adopted aimed at reducing effective costs of funds to stimulate investments ## Interest rate ceilings on	

Year	Macro/General Climate (Socio-Political, External Developments)	Foreign Sector	Fiscal	Monetary	Agric./Industrial Sectors
				loans were made the effective ceiling rates ## Effective ceiling on short-term deposit substitutes reduced to 15% ## 35% transactions tax imposed on primary borrowings in the money market # CB liberalized rediscounting of export papers, especially on non-traditionals	
1978				# Bank lending rates under M99 & Masaganang Maisan lowered # Rediscounting & bank lending rates for other preferred activities standardized # Increase in rediscounting ceiling of KBs up to 50% to finance non-traditional exports & small-scale industries(CB Circular 632)	
1979	# After 2nd oil shock, gov't stated policy was to engage in 'counter-cyclical policy' which had entailed increased rate of foreign borrowing under gov't guarantee; huge increases in budget financed primarily thru foreign, mostly short-term borrowing (Montes)	# 2nd oil shock # Rising interest rate in internat'l capital market # BOP affected by unfavorable trade conditions & renewed hikes in petroleum prices		# Interest rate ceilings increased by 2 percentage points across the board mainly to align domestic interest rates with those prevailing in world financial centers & thus discourage capital outflows to; encourage more bank deposits	
1980			# Large budget deficits began to appear	# Basic rediscounting regulations amended with new rediscounting ceilings, rates, & values to encourage banks to tap other sources of funds/lessen dependence on cheap CB credit	# Crop insurance scheme introduced; initial crop covered: rice (compulsory on M99 borrowers)

Year	Macro/General Climate (Socio-Political, External Developments)	Foreign Sector	Fiscal	Monetary	Agric./Industrial Sectors
				# Financial reforms instituted to i) promote greater efficiency via more competition; ii) increase availability & access to longer term funds; functional differentiation among banks reduced; "universal banking" introduced, with broader range of financial services; min. capital req't for each type of financial entity was increased # Credit expansion slowed down to check inflationary pressure	
1981	# Liquidity crisis in early part of the year	# Severe recession abroad # BOP deficit widened	# Budget deficit reached a staggering P12.2 B up from P3.4 B in '80 and funded by currency creation to the extent of 67.7% of total domestic financing source; foreign borrowings financed 49% of deficits (Lamberte)	# July: financial liberalization prog. began; interest rate ceilings lifted on all types of deposits and loans, except short-term loans & supervised credit loans # Start of financial crisis; 6 major banks came under control of gov't; problems increased govt's demand for financing # Feb. '81: reserve req'ts on deposits of 730 days or less reduced from 20% to 19% # Start of rationalization program for gov't securities; started the phaseout of CBCIs (issued in '70s mainly to rechannel funds from urban to to rural areas) # Crisis in domestic financial system during the early part of the year	
1982	# Economy experiences full impact of adverse developments caused by external global recession; international interest rates at highest level		# Budget deficit ran to P14.4 B; currency creation financed 72.2% of domestic financing,	# CB introduced a medium- and long-term rediscount facility to encourage longer term maturity transformation of loans of expanded KBs; also, promissory notes by approved high-grade shares of stock	

Year	Macro/General Climate (Socio-Political, External Developments)	Foreign Sector	Fiscal	Monetary	Agric./Industrial Sectors
			following an expansionary fiscal policy	could be rediscounted	
1983	* August 21: Aquino assassination. Crisis starts October. * Accelerated capital flight * BOP crisis due to int'l econ. environment & domestic policies; policies became very restrictive as a result (Lamberte)	* Outstanding external debt at start of crisis (10/83) was 72.7% of GNP; debt service was 35.7% * Peso devaluation from $1:P9 to $1:P11 , * 17 Oct.: peso devalued from $1:P11 to $1:P14 (exchange rate adjustments) * International reserves depleted	* New trade taxes imposed at beginning of crisis; additional ad-valorem duty on imports which strarted at 3% peaked at 10% by June 1984	* Interest rate ceiling on short-term loans lifted except ceilings on supervised/ special credit programs	
1984	* Period of deep internal recession * 50% inflation rate, thus reducing income level for the popl'n' * Real output fell by 6.8% * Min. legislated wages increased 3 times by a total of 77% (nominal), but in real terms ('78 prices) wages had fallen * May: elections for the members of parliament	* June: devaluation to $1:P18 * October: exchange rate freed * December: abolished the foreign exchange priority program	* June: additional export duties were imposed on exports, incl. an econ. stabilization tax of 30% on top of existing export duties * Oct.: foreign exchange transactions tax of 1% imposed * Dec.: export taxes suspended * Tax exemptions and subsidies withdrawn	* CB credits to the public sector significantly increased before election, while credits to deposit banks were being decreased * Sale of CB bills (Jobo bills) at interest rates that peaked at 43% in Oct.-- powerful & destructive intervention (CB directly borrrowing from financial system to reduce monetary base & liquidity)	* Aggie credit fell nominally by 35.9% from 1983 level * Oct.: all price controls on basic commodities, except on rice, were removed
1985	* Real output fell by 3.8% * Inflation decelerated			* Jan.: CB rediscounting rate revised & based on current MRR rates	

Year	Marro/General Climate (Socio-Political, External Developments)	Foreign Sector	Fiscal	Monetary	Agric./Industrial Sectors
	# Depressed demand and employment			# Restraint on growth of money applied # TD rates rose; interest rates on loans shot up	#Price control on rice removed (September)
1986	# Feb. snap presidential election # February revolution; overthrow of Marcos regime			# Reserve requirements reduced from previous 23% to 21% by August to pursue monetary expansion policy to prop up investments # Rediscount rates adjusted to 12.75%; uniform rates and rediscount value adopted for all types of loans and banks # Long-term papers and loans funded by STDs excluded from rediscounting with CB # Floating rates to end users adopted	
1987	# 1st sem. GNP growth rate at 5 % # May: senatorial and congressional elections # July: Congress convenes # Aug. 28: serious coup attempt staged			# Special credit programs for aggie consolidated into Comprehensive Agric'l Loan Fund (CALF) primarily as guarantee facility; direct program lending for phaseout # Rediscount rates fixed at 11.75% following the declining trend in the market	# Agricultural growth for 1st sem: less than 1%; harvests affected by El Nino (drought)

Table 7
POLICY DIRECTIONS: RESERVE REQUIREMENTS, REDISCOUNTING POLICY, OPEN MARKET OPERATIONS, AND INTEREST RATES, 1970-87

Year	Reserves	Rediscounting: Interest Rates	Rediscounting: Volume Direction (real terms)	Open Market Operation a/ (OMO)	Interest Rate Ceilings: Deposits	Interest Rate Ceilings: Loans	Loans: Volume Direction of Loans Outstanding (in real terms)
1970	* Contractionary to counteract effects of peso devaluation and election spending * Series of upward adjustments from 16% before Feb. 16 to 20% by Aug. 1 for KBs * Series of upward adjustments for RBs range of 7-11% to 10-14%	* Below savings and TD rates	* Contractionary		* Fixed at 6% for savings; 6.5 to 8% for TD; ceiling on TD <730 days removed	* Administrative ceiling pegged at 12% on secured loans	
1971	* 1970 reserve levels maintained		* Moderately contractionary (-11.8%)		* Rates maintained	-do-	* Slightly expansionary (3.9%)
1972	* Reserves maintained at 20%	* Rates maintained	* Slightly expansionary: (7.5%)		* Rates maintained	-do-	* Slightly expansionary (7.8%)
1973	-do-	* Reduced rates for aggie; increase in non-aggie rediscount to 5%	* Very contractionary (-27.4%)		-do-	-do-	* Slightly expansionary (6.4%)
1974	-do-	* Increased rediscount rates to 5% for aggie to KBs * Reduced rates in preferred areas	* Extremely expansionary (93.1%)		* TD rates increased between 8-11.5% * Savings deposit rate of banks other than KBs	-do-	* Moderately expansionary (10.2%)

a/ Available data from 1975 indicate that government securities were marketed at rates below 15% until 1984.

Year	Reserves	Rediscounting: Interest Rates	Rediscounting: Volume Direction (real terms)	Open Market Operation a/ (OMO)	Interest Rate Ceilings: Deposits	Interest Rate Ceilings: Loans	Loans: Volume Direction of Loans Outstanding (in real terms)
1974		(sup. credit) in aggie; 1 % on M99 papers * Reduction in non-aggie rediscount rates to uniform 5%			raised by half percentage point		
1975	-do- * TD with 730 days maturity period exempted from reserves (expansionary) * Reserves on KB savings & TD of 730 days or less maturity reduced from 12% & 10%, respectively, to uniform 8% * Expansionary	* Rate to KBs for SC reduced from 5% to 1% to encourage KBs to participate in gov't program (expansionary for aggie)	* Expansionary (20.8%)		* Rates maintained	-do-	* Very expansionary b/ (20% increase
1976	* Reserve rates maintained	* Rates maintained	* Moderately contractionary (13.8%)		* Upward adjustments by one percentage point on savings, and half to one percentage point on TDs	-do-	* Moderately expansionary (10.4%) b/
1977	-do-	* Rate adjustment for rediscounts of KBs from unitary 5% for non-aggie to differentiated rates ranging from 5-8% with lower rates for preferred areas	* Slightly expansionary (6.3%)		* No changes	-do-	* Moderately expansionary (11.8%) b/
1978	-do-	* Rate for ordinary agriculture reduced by 1 percentage pt. * Range for non-	* Very expansionary (22.1%)		* No changes	-do-	* Moderately expansionary (18.5%)

b/Based on loans outstanding data which also include past due loans and items in litigation.

Year	Reserves	Rediscounting: Interest Rates	Rediscounting: Volume Direction (real terms)	Open Market Operation a/ (OMO)	Interest Rate Ceilings: Deposits	Interest Rate Ceilings: Loans	Loans: Volume Direction of Loans Outstanding (in real terms)
		aggie changed to 4-9%					
1978		* Long-term papers made eligible at 8% * Expansionary					
1979	* Reduced reserves on TDs from 20% to 10% on the 4th qtr. of the yr. * Expansionary	* Non-aggie rediscount rates generally reduced from 4-9% to 4-6% * Expansionary	* Very expansionary (45.0%)		* No major changes	* Ceiling raised by 2 percent points to 14% p.a.	* Moderately expansionary (10.9%) only due to double-digit inflation rate; nominal values rose by 24.4%
1980	* Reserve rate on TDs restored to 20% during 3rd quarter of the year	* Reduced to 3-6% non-aggie; ag. reform credits also reduced from 3% to 1% * Accommodated long-term papers of NBQBs * Expansionary	* Very expansionary (31.5%)		* Fixed at 9-9.5% on savings; 14-14.5% on TDs	* No change	* Real growth slightly contractionary (-0.9%) due to high inflation rate; nominal values rose by 14.6%
1981	* Reduced reserves to 19% in Feb.; imposed 1% reserves on TDs with more than 730 days maturity * Expansionary	* Upward adjustment: aggie to 3% on SC c/ & 8% for non-preferred credits in both aggie & non-aggie * Non-traditional exports: reduced rates on long-term papers	* Moderately expansionary (12.9%)		* Lifted ceilings	* Lifted ceiling rates, except on short-term loans & SC loans	* Slightly expansionary (7.1%)
1982	* Reserves reduced to 18% * Expansionary	* Maintained previous year's rates; energy	* Slightly expansionary (4.6%)		* Market rates, WAIR d/ at 9.8% on savings and	* Floating rate increased * Contractionary	* Slightly expansionary (3.9%)

c/ SC - Supervised credit/special credit program loans
d/ WAIR - Weighted average interest rate

Year	Reserves	Rediscounting: Interest Rates	Rediscounting: Volume Direction (real terms)	Open Market Operation a/ (OMO)	Interest Rate Ceilings: Deposits	Interest Rate Ceilings: Loans	Loans: Volume Direction of Loans Outstanding (in real terms)
1982		related papers transformed into preferred area at 3%			15.8% on TDs		
1983	* Reserves increased to 19% in Sept., 20% in Oct., 21.5% in Nov., finally, 23% in Dec. * Contractionary	* Generally maintained rates	* Very contractionary (-21.6%)		* Slight decline in WAIRs	* Lifted ceiling on short-term loans * Further increases in market rates * Contractionary	* Expansionary LO (17.6%) * But new loans granted, real terms declined by some 6%
1984	* Increased to 24% in April * Contractionary	* Rates still multi-tiered & lower for preferred areas but now related to MRR; however, non-price rationing strategies adopted at the CB rediscount * Contractionary	* Extremely contractionary (-49.2%)	* Contractionary; high-yield T-bils & CB bills sold to public starting 2nd semester	* Slight increase on savings rate; TD rate, WAIR rose to 24.16%	* Yearly WAIR all maturities, climbed to 26.7% (contractionary), but negative real rate (-23.2%)	* Very contractionary (-34.5%) * Real loans granted also declined by 36.9%
1985	* Contractionary * Reserves reduced one percentage point in September	* 1984 levels generally maintained; adjustable and uniform rate adopted beginning Nov., with floating rate of 12.75%	* Moderately contractionary (-14.3%)	* Highly contractionary on credits available to public, with OMO offering high yields on T-bills & CB bills (Jobo) beginning 2nd half of 1984; contractionary until 3rd quarter of 1985	* Moderate increase in savings rate; slight decline on TDs	* Rise continued; WAIR, all maturities at 28.2% * Contractionary	* Very contractionary (-25.3%) * Loans granted, real terms, also declined by 29.7%
1986	* Reserves reduced to 22% in	* Rate of 12.75% pre-	* Moderately expansionary		* Significant decline in sa-	* Down to 17.35% nominally but	* LO volume decline by 28.3% due

Year	Reserves	Rediscounting: Interest Rates	Rediscounting: Volume Direction (real terms)	Open Market Operation a/ (OMO)	Interest Rate Ceilings: Deposits	Interest Rate Ceilings: Loans	Loans: Volume Direction of Loans Outstanding (in real terms)
1986	May; by Dec. TDs with over 730 days maturity reduced from 6 to 5%	vailed until September when rates decreased by 1 percentage, then down to 10% in Dec. (somewhat expansionary toward 4th quarter of year)	* End-May data increase of 3.2%		vings and TD rates	real spread still very high * Expansionary	transfer of non-performing assets of 2 gov't banks; new loans granted actually increased by about 20%, real terms
1987	* Reserves remain unchanged as of Nov. 1987	* Rate of 10% starting Dec. '86 held on till present (Nov. '87)	* N.A.		* Further declines	* Down to 12.8% by 2nd quarter * Expansionary	* Slightly expansionary (4.8%)

N.A. - Data not available as yet.

Note: Growth rates of rediscounts and loans outstanding are described as either expansionary or contractionary according to following annual growth raates:

Sligtly - 10% and below
Moderately - 10.1% - 20%
Very - 20.1% - 30%
Extremely - above 30%

Table 8. INTEREST RATE CEILINGS ON DEPOSITS, Nominal & Real, 1961-1981
(in percent per annum)

Effectivity Date a/	Nominal				Real			
	Savings		Time		Savings		Time	
	KBs*	Others b/	KBs	Others	KBs	Others	KBs	Others
April 16, 1969	6	6	6.5-7	6.5-7	4.8	4.8	5.3-5.8	5.3-5.8
February 21, 1970 c/	6	6	6.5-8	6.5-8	(8.85)	(8.85)	(8.35)-(6.85)	(8.4)-(6.85)
1971	6	6	6.5-8	6.5-8	(15.9)	(15.9)	(15.4)-(13.9)	(15.4)-(13.9)
1972	6	6	6.5-8	6.5-8	(2.23)	(2.23)	(1.73)-(0.23)	(1.7)-(0.23)
1973	6	6	6.5-8	6.5-8	(10.5)	(10.5)	(10.0)-(8.5)	(10.0)-(8.5)
July 29, 1974	6	6.5	8.0-11	8.5-11.5	(28.16)	(27.7)	(26.2)-(23.16)	(25.7)-(22.7)
1975	6	6.5	8.0-11	8.5-11.5	(0.78)	(0.3)	(0.73)-2.77	1.72-4.72
January 2, 1976	7	7.5 d/	8.5-12	9.0-12.5 e/	(2.23)	(1.73)	(0.73)-2.77	(0.23)-3.27
September 9, 1977	7	7.5	8.5-12	9.0-12.5 e/	(2.23)	0.21	1.21-4.71	(0.23)-3.27
June 19, 1978	7	7.5	8.5-12	9.0-12.5	(0.29)	(9.01)	(8.01)-(4.51)	1.71-5.21
December 1, 1979 f/	7	7.5	8.5-12	9.0-12.5	(9.51)	(8.1)	(3.6)-(17.6)	(7.51)-(4.01)
August 22, 1980	9 g/	9.5 h/	14 i/	14.5 j/	(8.6)	(2.89)	4.24	(3.1)
June 26, 1981	no ceiling k/		no ceiling k/					

* Commercial Banks

a/ Effectivity date of new rates.

b/ This includes Savings, Rural, Development, and Cooperative Banks, and Savings and Loan Associations.

c/ There is no administrative ceiling for interest payments on time deposits if over two years.

d/ For development banks it was 7, none for cooperative banks.

e/ For development banks it was 8.5-12, none for cooperative banks.

f/ Interest rates on "NOW" accounts also took effect. Only savings and development banks and savings and loan associations had a rate of 5%; the rest had none.

g/ This rate is applicable to Unibanks, KBs, DBP, and Land Bank.

h/ Applicable to thrift and rural banks only. "NOW" accounts rate for institutions in g/ and h/ is 7%.

i/ True for deposits with original maturity of 730 days or less in g/ institutions. However, there was no ceiling for deposits with original maturity of more than 730 days. The same applies for deposits in thrift and rural banks.

j/ True for deposits with original maturity of 730 days or less in h/ institutions

k/ Applies to all banking institutions and to "NOW" accounts.

Source: NEDA. Philippine Statistical Yearbook, 1986.
CB-Dept. of Economic Research.

Table 9
Nominal & Real Interest Rates on Secured Loans of Commercial Banks, 1970-86 a
(in % p.a.)

Year (End of Period)	Nominal	Real
1970	12.0	(2.85)
1971	12.0	(9.9)
1972	12.0	(3.77)
1973	12.0	(4.5)
1974	12.0	(22.16)
1975	12.0	(5.22)
1976	12.0	(2.77)
1977	12.0	2.07
1978	12.0	4.71
1979	14.0	(2.51)
1980	14.0	(3.6)
1981	17.1	4.7
1982	18.2	8.0
1983	19.3	9.2
1984	26.7	(23.2)
1985	28.2	5.1
1986	17.3	16.6

a/ Administistrative ceiling rates from 1970-1980. From 1981 to 1986 nominal rates represent weighted average interest rate (WAIR) on secured loans, all maturities of 8 selected KBs only.
b/ Real rates = Nominal rate - Inflation rate

Source: CB-DER

Table 10
CHANGES IN REDISCOUNT RATES, COMMERCIAL BANKS & THRIFT BANKS, 1970-87
(in Percent per annum)

CB Circular/ or MB Resol'n.	Year/Date of Authority	KBs and Thrift Banks: Agriculture SC	Agriculture NSC b/	Non-Agriculture b/
MBR #686	May 5, 1970	3-4		4.75-5.75
	1973	3	3	5.75-6
Circ. 442	Dec. 12, 1974	5	5	5
Circ. 472	June 30, 1975	1	-do-	-do-
Circ. 543	Oct. 26, 1976	1 for M99 & MM papers	-do-	-do-
	1977	1	-do-	5-8 5% for small industr'l, export, & mining; 6-8% for other papers depending on whether priorities A (6%), B (7%), or C (8%)
Circ. 610	May 9, 1978	-do-	4	4-9 long-term papers included at 8%
Circ. 635	Oct. 12, 1978	-do-	3-4 c/	-do-
Circ. 664	March 19, 1979	-do-	-do-	-do- long-term papers reduced to 6%
Circ. 672	April 6, 1979	-do-	-do-	4-6 other papers reduced to 6%
Circ. 750	Aug. 22, 1980	-do-	1-4 d/	3-6 12% for long-term papers of NBQBs
Circ. 784	Feb. 27, 1981	3	8 3 (special program for NFA, FII, Food Quedan)	8 3 for non-traditional export industry; 3-10 for 1 long-term papers
Circ. 803	June 18, 1981	-do-	-do-	long-term paper reduced to 1-3%

CB Circular/ or MB Resol'n.	Year/Date of Authority	KBs and Thrift Banks Agriculture		Non-Agriculture b/
		SC	NSC a/	
Circ. 872	April 26, 1982	-do-	-do-	-do- General purpose papers for dendrothermal, minihydro, & small self-contained energy reduced to 3%
Circ. 981	Nov. 22, 1983	-do-	-do-	Traditional export reduced to 7% from 8%; non-traditional export increased from 3% to 8%
Circ. 991	Jan. 23, 1984	-do-	-do-	Non-traditional export decreased to 7%; traditional export, long-term papers, & gen. purpose papers adjusted to lending rate (6%)
Circ. 994	March 12, 1984	MRR less 12	MRR less 8	MRR - 3 for long-term papers MRR - 6 for general purpose credit MRR -9 for non-trad. export MRR - 10 for NFA, FTI, & Food Quedan papers
Circ. 1063	May 30, 1985	-do-	-do-	Export industr'l, trad. & non-trad. adjusted to MRR - 6
Circ. 1086	November 1985	a. Rates adjustable according to market directions. b. Rediscounting of STD-funded credits and long-term papers no longer allowed.		
			12.75	
	Eff. Sept. 1986		11.75	
	Eff. Dec. 1986 to present (Oct. '87)		10.00	

a/ Non-supervised credit includes food production, agrarian reform credits, NGA papers, and Grains Quedan papers. fn:table10 3/18/88

b/ Includes agricultural, industrial, and commercial credits, small industry, export (trad. and non-trad.) industries; general purpose papers, and long-term papers.

c/ Only NGA papers at 3%.

d/ Agrarian reform credits reduced from 3 to 1%.

SC = Supervised Credit
NSC = Non-Supervised Credit
MBR = Monetary Board Resolution
NFA = National Food Authority
FTI = Food Terminal, Inc.
MRR = Manila Reference Rate

Source of basic data: Central Bank.

Table 11
MASAGANA 99: NUMBER OF BORROWERS, AMOUNT OF LOANS AND HECTARAGE FINANCED, CY 1973-87

Crop Year	Phase a/	Amount of Loans Granted (M Pesos) Nominal	Real (1972 = 100)	Number of Farmers with M-99 Loans ('000)	Hectares Financed ('000)
1973/74	1	373.0	315.79	396.9	618.2
	2	230.7	149.1	220.0	326.9
1974/75	3	716.0	462.75	537.3	865.7
	4	572.5	341.61	304.2	594.1
1975/76	5	574.6	342.86	310.8	555.7
	6	255.4	139.57	148.7	255.7
1976/77	7	274.0	149.73	131.1	243.7
	8	163.6	83.25	85.3	147.4
1977/78	9	250.0	127.21	134.1	222.5
	10	179.5	83.63	90.3	156.6
1978/79	11	240.4	112.01	119.2	202.5
	12	180.9	73.14	94.8	161.3
1979/80	13	238.4	96.39	11.6	202.8
	14	144.1	50.4	75.9	134.4
1980/81	15	180.3	63.07	100.3	169.7
	16	156.5	49.34	77.6	137.5
1981/82	17	146.7	46.25	75.9	133.4
	18	128.6	37.39	46.1	89.0
1982/83	19	181.4	52.75	75.0	138.0
	20	112.6	29.32	50.2	77.5
1983/84	21	155.4	40.46	67.5	114.4
	22	108.6	18.97	38.3	61.8
1984/85	23	95.2	16.63	34.7	67.3
	24	44.3	6.58	16.1	29.3
1985/86	25	64.6	9.59	20.8	65.0
	26			10.4	24.0
1986/87	27			9.4	29.6
	28			6.1	15.6

a/ Odd-numbered phases refer to wet cropping season; even-numbered, to dry season.
Source: National Agriculture and Fishery Council.

Table 12

AVERAGE RATIO OF AGRICULTURAL LOANS OUTSTANDING TO TOTAL LOANS OUTSTANDING & TO NET LOANABLE FUNDS BY INSTITUTION

	Pre-PD 717 (1971-74)	Post-PD 717 (1978-83)
A. Agicultural Loans Outstanding to Total Loans Outstanding		
Commercial Banks	0.23	0.10
Thrift Banks	0.07	0.15
Rural Banks	0.95	0.88
Specialized Government Banks	0.21	0.12
Overall	0.26	0.14
B. Agricultural Loans Outstanding to Net Loanable Funds		
Commercial Banks	0.25	0.10
Thrift Banks	0.15	0.08
Rural Banks	1.14	1.00
Specialized Government Banks	-	0.12
Overall	0.27	0.14

Source: TBAC. Agricultural Credit Study, August 1985.

Table 13

DOMESTIC LIQUIDITY & INFLATION RATE
1970-86

Year	Domestic Liquidity *		Inflation Rate
	Amount (PM)	Annual Growth R (%)	(1972=100)
1970	9387.9		14.9
1971	10493.6	11.8	21.9
1972	11871.1	13.1	8.2
1973	18063.0 a/	13.5 a/	16.5
1974	24242.1	34.2	34.2
1975	28885.8	19.2	6.8
1976	35897.4	24.3	9.2
1977	43931.1	22.4	9.9
1978	51837.2	18.0	7.3
1979	57360.0	10.7	16.5
1980	67803.2	18.2	17.6
1981	82091.3	21.1	12.4
1982	95268.8	16.1	10.2
1983	112962.1	18.6	10.2
1984	121215.2	7.3	50.4
1985	132882.5	9.6	23.1
1986	149224.5	12.3	0.8

* Data from 1970-85 came from CB Rediscount Policy and the Arrearages Problem (Ad Hoc Study Group Report), 1986. (Figures are as of end-December.)

a/ Smoothed out to include deposit substitutes previously excluded in the concept of domestic liquidity, hence, the lower rate (13.5% instead of 52.2).

Sources:

1. DER-Domestic and Dept. of Loans and Credit, Central Bank of the Philippines.
2. NEDA-National Accounts Staff

Table 14
TOTAL LOANS OUTSTANDING OF BANKS a/
1970-87
(Amounts in PM)

Year	Nominal	Real	Annual % Change	
			Nominal	Real
1970	13513.1	16504.0		
1971	16023.2	17147.2	18.58	3.90
1972	18490.3	18490.3	15.40	7.83
1973	23235.3	19671.7	25.66	6.39
1974	33527.0	21668.5	44.29	10.15
1975	43665.3	26054.6	30.24	20.24
1976	52643.0	28767.3	20.56	10.41
1977	63197.3	32157.6	20.05	11.79
1978	80986.3	37733.1	28.15	17.34
1979	103524.0	41858.4	27.83	10.93
1980	124936.0	43701.5	20.68	4.40
1981	148470.5	46806.9	18.84	7.11
1982	167236.7	48629.7	12.64	3.89
1983	219617.1	57184.7	31.32	17.59
1984	214327.2	37437.4	-2.41	-34.53
1985	188366.1	27965.7	-12.11	-25.30
1986	137408.8b/	20054.7	-27.05	-28.29
1987c/	149464.0	21024.3	8.77	4.84

a/ Loans include items in litigation and past due.

b/ After the transfer of PNB's and DBP's non-performing assets to the national government.

c/ 1987 data differ in month of reporting.
Commercial and Savings Banks: as of Aug. '87
Thrift Banks & SBBanks: as of July '87
Rural Bank: as of June 1987

Source: CB-Dept. of Econ. Research
(from yearly statements of condition of banks)

Table 15

PAWNSHOPS AND LENDING INVESTORS: NO. OF FIRMS, GROWTH RATE, REAL ASSETS & LOANS OUTSTANDING, 1984-1987

Year	No. of Units	Growth Rate in No.	Total Real Assets		Total Real Loans	
			Amount (PM)	Growth Rate (%)	Amount (PM)	Growth Rate (%)
I. Lending Investors						
1984	152		11.9		9.1	
1985	200	31.2	13.8	16.0	10.4	14.3
1986	300	50.0	34.6	151.0	27.9	168.3
1987	443	48.0	46.6	34.0	35.2	26.2
II. Pawnshops						
1983	701	12.7	114.1	2.6	88.1	-3.9
1984	848	21.0	108.3	-5.0	90.8	3.1
1985	953	12.4	119.3	10.1	97.9	7.8
1986	1143	19.9	146.6	22.9	108.6	10.9

Source of basic data: Central Bank.

Table 16

SUMMARY OF STUDIES INDICATING EXTENT OF BORROWING FROM FORMAL AND INFORMAL SOURCES a/
(In % of Total Number of Loans or Borrowers)

Period Covered	Author/Year of Publication or Release	Number of Loans/ Borrower-Respondents	Credit Source (%) Formal	(%) Informal	Mixed
1954-55	de Guzman (1957)	2,411 loans	12.0	88.0	
1957-58	Gapud (1958)	256 loans	10.0	90.0	
1957-58	Sacay (1961)	916 loans	13.0	87.0	
1960-61	BCS (1963)	1,679,000 loans	7.8	92.2	
1967-70	Mangahas (1975)	151 borrowers	11.9	88.1	
1970-71	Mangahas (1975)	297 borrowers	20.9	79.1	
1969-70	Almario (1970)	138 loans	37.7	62.3	
1969-70	Balagot (1974)	134 borrowers	21.6	78.4	
1973	DA (1974)	620 loans	51.3	48.7	
1973-74	PCARR-BAEcon (1974)	3,304 loans	92.2 b/	7.8	
1974	Cigaral (1977)	421 borrowers	94.0	6.0	
1975-76	DA				
	Iloilo (Feb. 1977)	341 loans	82.7	17.3	
	Ilocos (Jan. 1977)	703 loans	67.6	32.4	
	Zamboanga (Apr. 1977)	551 loans	74.6	25.4	
1976	DA (1976)	268 farmers	17.2	82.8	
1977	UPBRF (1977)	1,079 loans	36.9	63.1	
1977	DA (1977)	405 farmers	5.2	94.8	
1977	TBAC (1978)	656 borrowers	25.8	74.2	
1977-78	Laopao & Latorre (1979)	41 fishermen	29.3	70.7	
1978	DA (1978)	338 farmers	3.8	96.2	
1978	TBAC (1981)	2,110 loans	17.4	82.6	
1979	Manalo (1979)	203 cattle raisers	54.7	45.3	
1979-80	NIA-SGV (1980)	299 farmers	20.0	80.0	
1980	Capistrano (1982)	41 village households	2.1 c/	97.9 c/	
1981-82	TBAC (1986)	871,600 loans	40.2	59.8	
		626,300 farmers	34.0	58.7	7.3
1983-84	Floro (1986)	111 farm households d/	.9	99.1	
		448 loans	8.0	92.0	

Period Covered	Author/Year of Publication or Release	Number of Loans/ Borrower-Respondents	Credit Source (%) Formal	Informal	(%) Mixed
1984	UP ISSI (1985)	146 small and medium scale entrepreneurs	60.3	28.8	11.0
1985	NEDA (1987)	381,400 e/	20.7	79.3	
1986	Ateneo-Social Weather Stations	9.583 M persons of voting age	32.1	64.9	3.0
1987	-do-	10.322 M persons of voting age	28.4	65.7	5.9

a/ Data comparability is limited by differences in sampling.
b/ Samples were drawn from list of borrowers of banks which explains the high percentage of loans from the formal sector.
c/ Out of 48 responses. Some borrowers had more than one source of credit.
d/ The respondents were all borrowers.
e/ Borrowers-respondents availed of credit anytime from 1975 to 1985.
M = million

Sources:

1. Adapted from: Sacay, Agabin, & Tanchoco. Small Farmer Credit Dilemma, 1985.
2. Ateneo-SWS. Oct. 1986 & Oct. 1987 Survey data.
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Table 17
History of Rural Money Lenders, by Major Occupation
1967, 1972, & 1978

Type of Money Lender	Total No. of Respondents	No. Money Lending a/ (as of Year Indicated)			Entrants Between	
		1967	1972	1978	1968 & '72	1973 & '78
Farmer	62	13.0 (21.0)	37.0 (60.5)	62.0 (100.0)b/	24.0 (38.0)	12.0 (19.0)
Landlord	24	5.0 (20.8)	14.7 (58.3)	24.0 (100.0)b/	9.0 (37.5)	5.0 (21.0)
Palay Trader	32	7.0 (21.8)	14.7 (43.7)	32.0 (100.0)b/	7.0 (22.0)	11.0 (34.4)
Rice Miller	10	None	2.0 (20.0)	10.0 (100.0)b/	2.0 (22.0)	8.0 (80.0)
Input Dealer	13	5.0 (38.5)	8.0 (61.5)	13.0 (100.0)b/	3.0 (23.0)	0.0
All c/		30.0 (21.0)	75.0 (53.0)	141.0 (100.0)	45.0 (32.0)	36.0 (26.0)

a/ Figures in parentheses are in percent of 1978 number.
b/ The balance between the 1978 total number minus the numbers in 1967 and 1972, were entrants between 1972 and 1978.
c/ Excluding storeowners.

Source: Derived from TBAC. A Study on the Informal Rural Financial Markets in Three Selected Provinces of the Philippines, Table 62, p. 90, 1981.

Table 18

AVERAGE ANNUAL INTEREST RATE ON INFORMAL LOANS
VARIOUS YEARS

Period Covered	Author/Agency	Survey Areas	Interest Rate (% p.a.) A. Including zero interest loans	B. Excluding zero interest loans
1957-58	Gapud	Nueva Ecija	98.0 a/	126.8 a/
1957-58	Sacay	18 provinces	82.0 a/	
1978-79	TBAC	Bulacan	32.6 a/	57.7 b/
		Camarines Sur	50.7 a/	80.5 b/
		Isabela	83.3 a/	87.7 b/
1980-81	Swaminathan	Nueva Ecija c/		
		small farm	91.2 d/	
		medium farm	104.4 d/	
		large farm	67.2 d/	
1981-82	TBAC	Nationwide	48.2 a/	76.1 a/
1983-84 e/	Floro	Cagayan, Nueva Ecija, Iloilo		
		Marginal area f/		
		unlinked loans	230.4 g/	
		linked loans	212.4 g/	
		Developed area f/		
		unlinked loan	172.8 g/	
		linked loans	196.0 g/	

a/ Interest rates on fully paid loans.
b/ Including traditional credit only, in contrast to figures on left which include traditional loans, "legal" type of informal credit and non-commercial loans.
c/ The study was conducted in two areas: the control area and rates computed for this table came from the control area only.
d/ Loan rates are for the wet season only, based on monthly rates of 7.6, 8.7, and 5.6 per cent for the respective farm sizes.
e/ Wet season only.
f/ The researcher classified the 14 sample villages into two groups. The developed area is more productive, capital-intensive, and commercialized than the marginal area.
g/ Based from monthly rates of 19.2, 17.7, 14.4, and 16.5 per cent, respectively.

Sources:

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FIGURE 1. ICM IN THE MACROECONOMIC FRAMEWORK

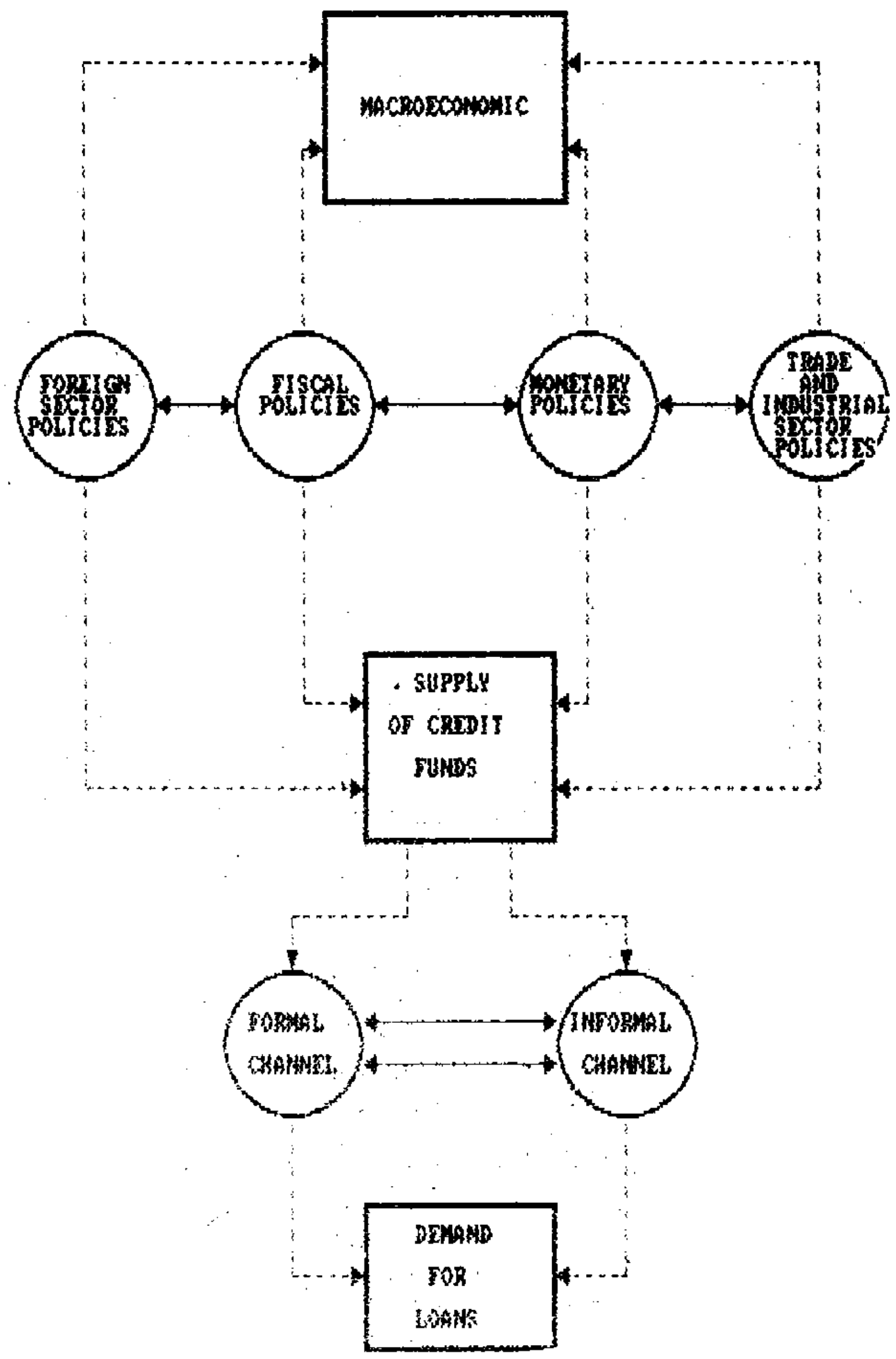

Figure 2 STRUCTURE OF PHILIPPINE FINANCIAL SYSTEM

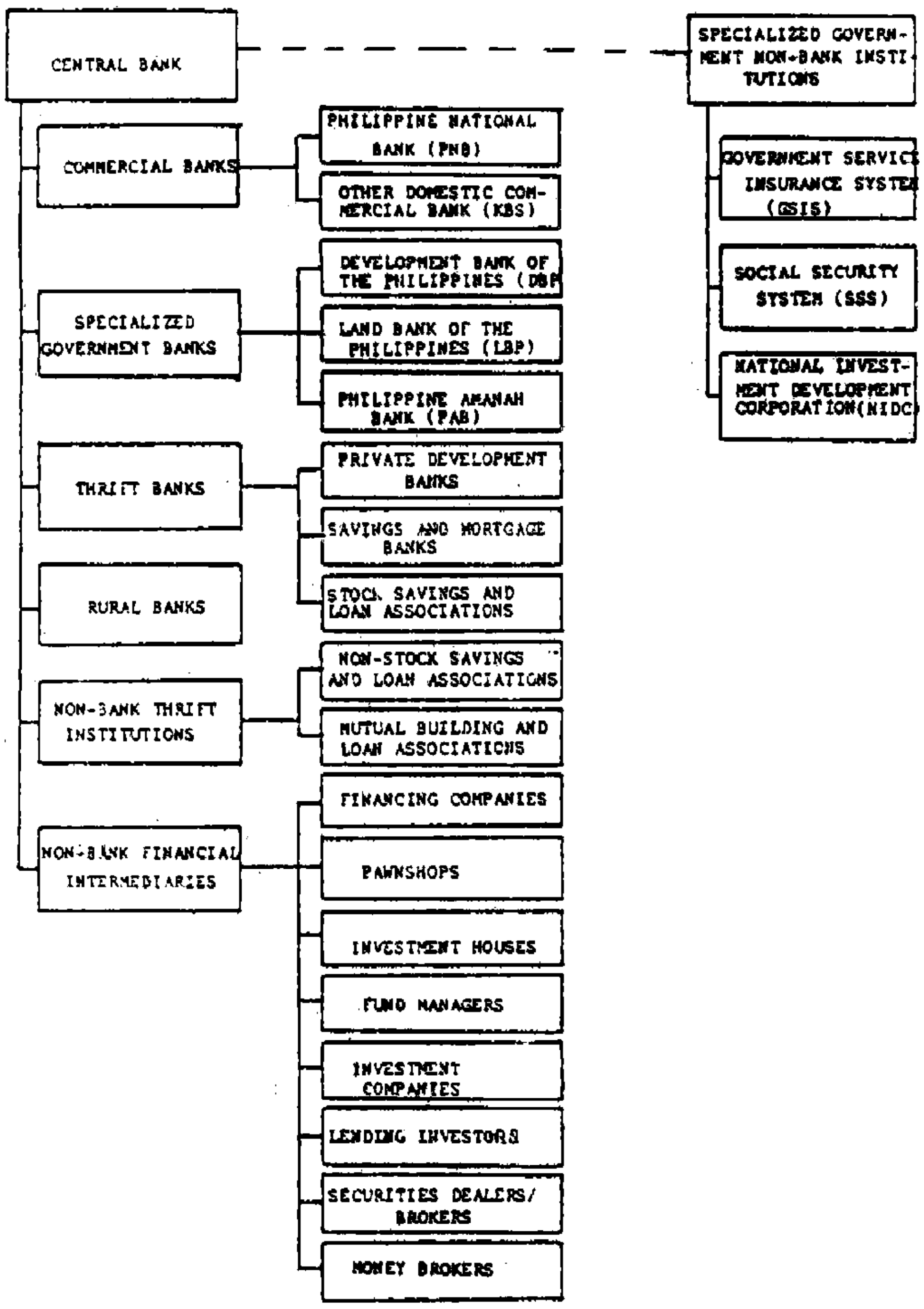

Figure 3. ICM STRUCTURAL CONFIGURATION

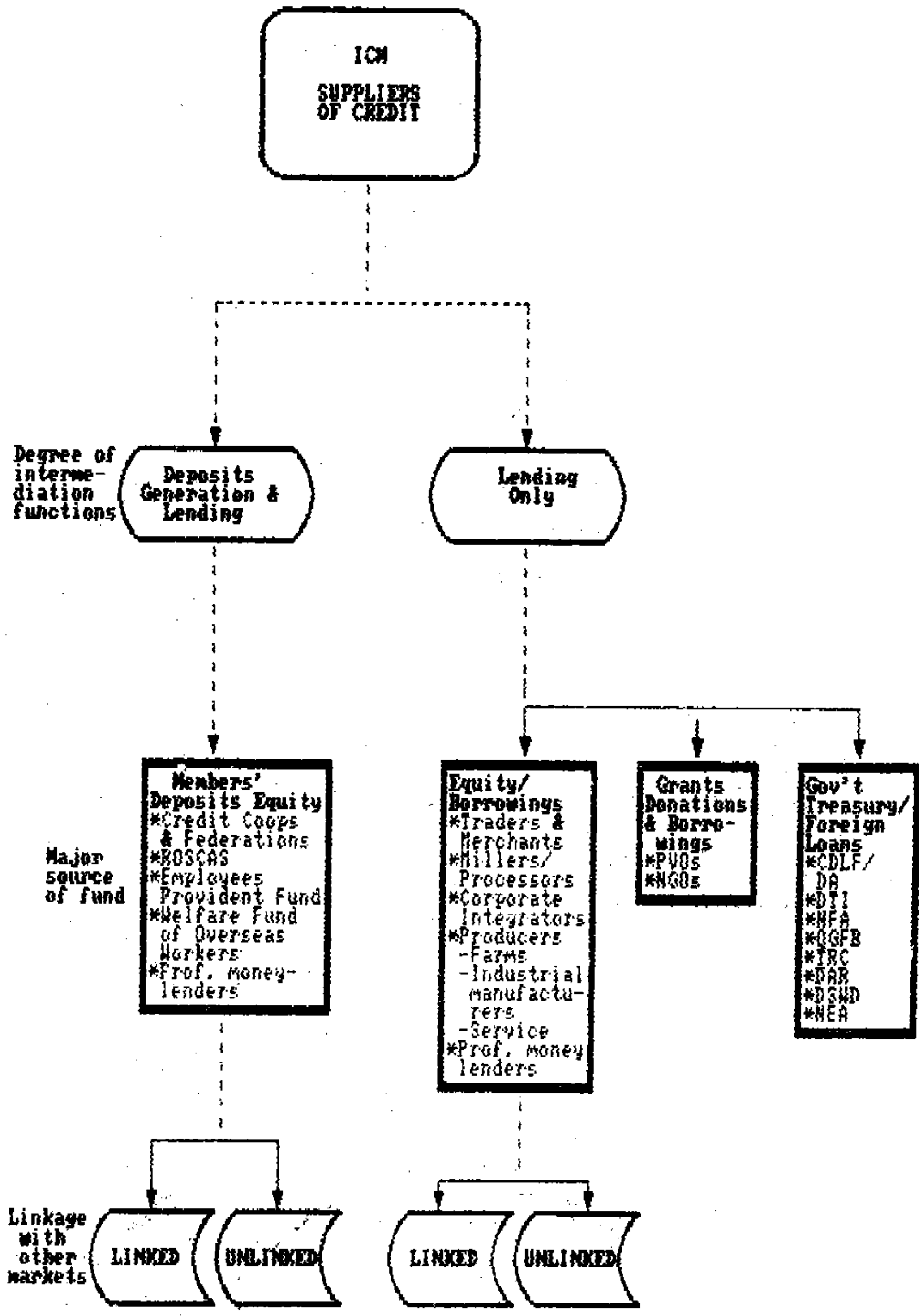

FIGURE 4. Outstanding Rediscounts, Nominal & Real Values, 1970-1986

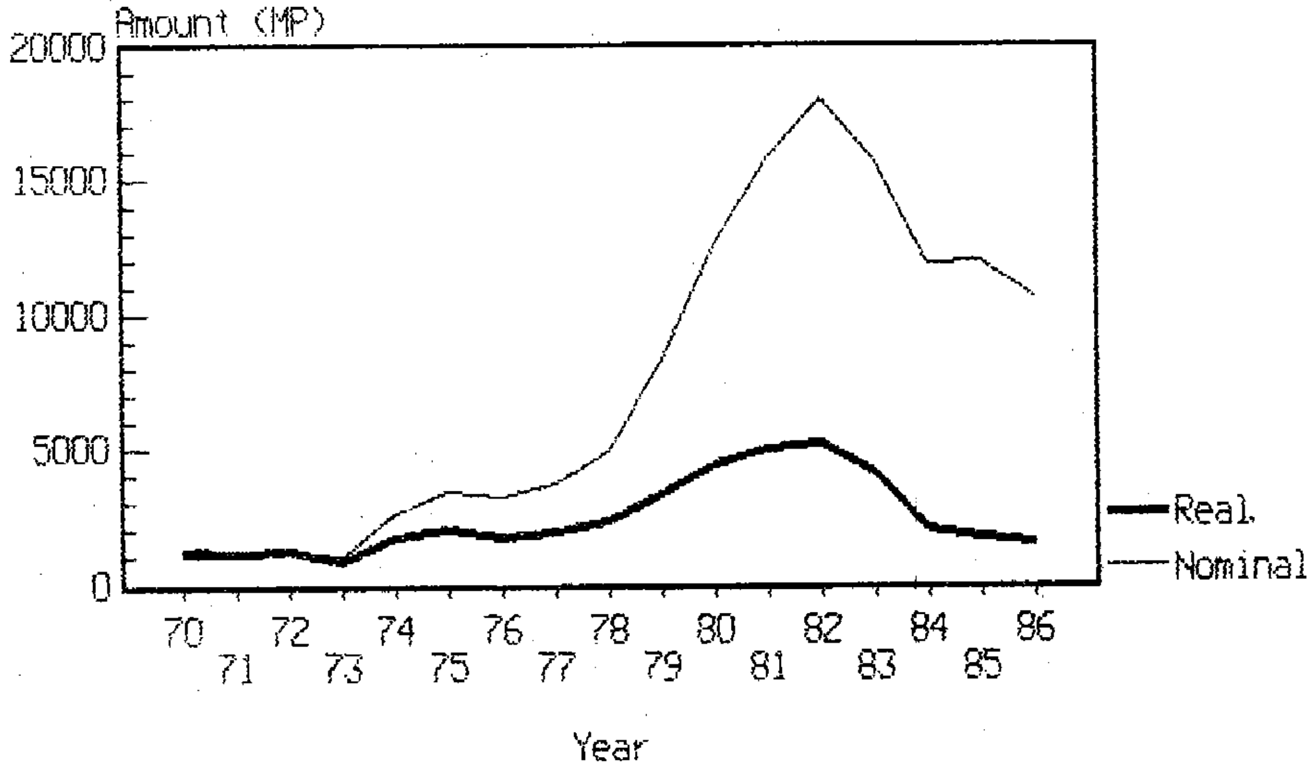

FIGURE 5. Annual Growth Rate, Nominal & Real Values, Outstanding Rediscounts 1970-1986

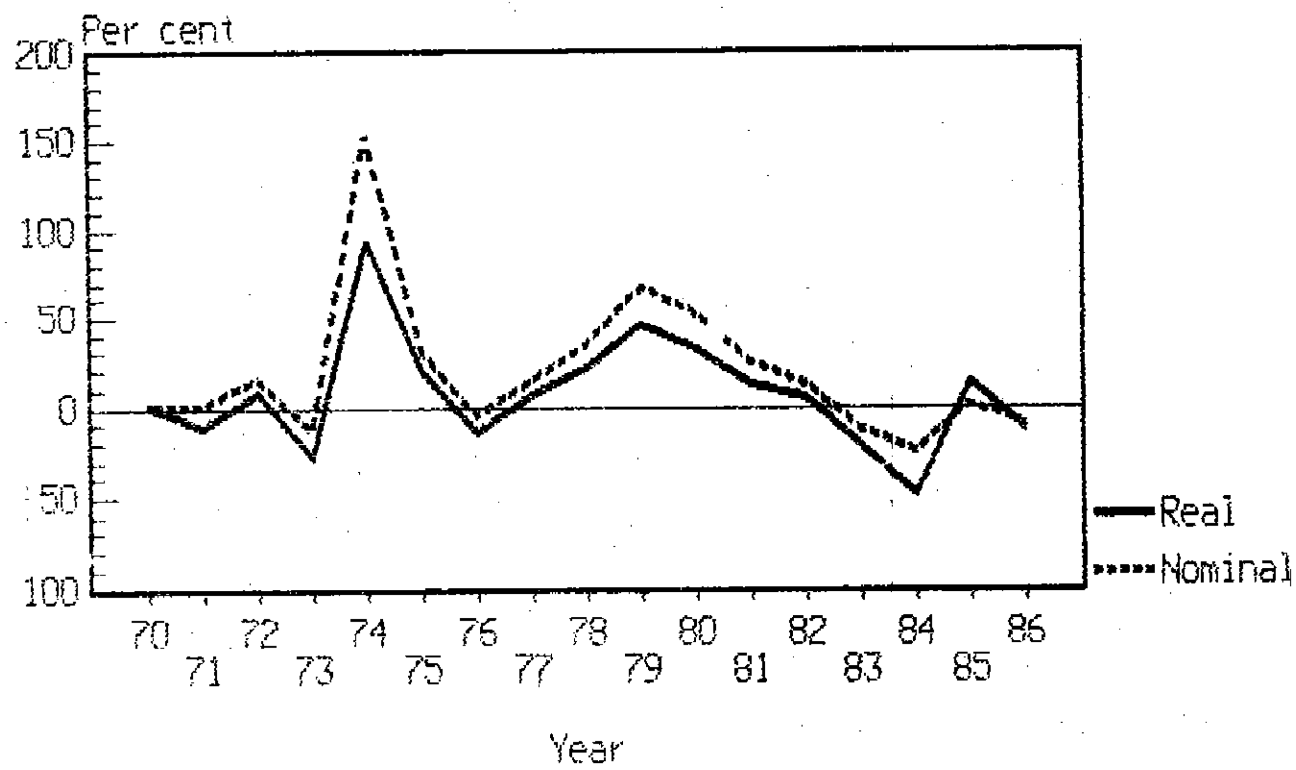

Fig. 6. AMOUNT OF LOANS GRANTED, NO. OF FARMER-BORROWERS, & HECTARAGE FINANCED M-99 PROGRAM, PHASES 1-28 ('73-'87)

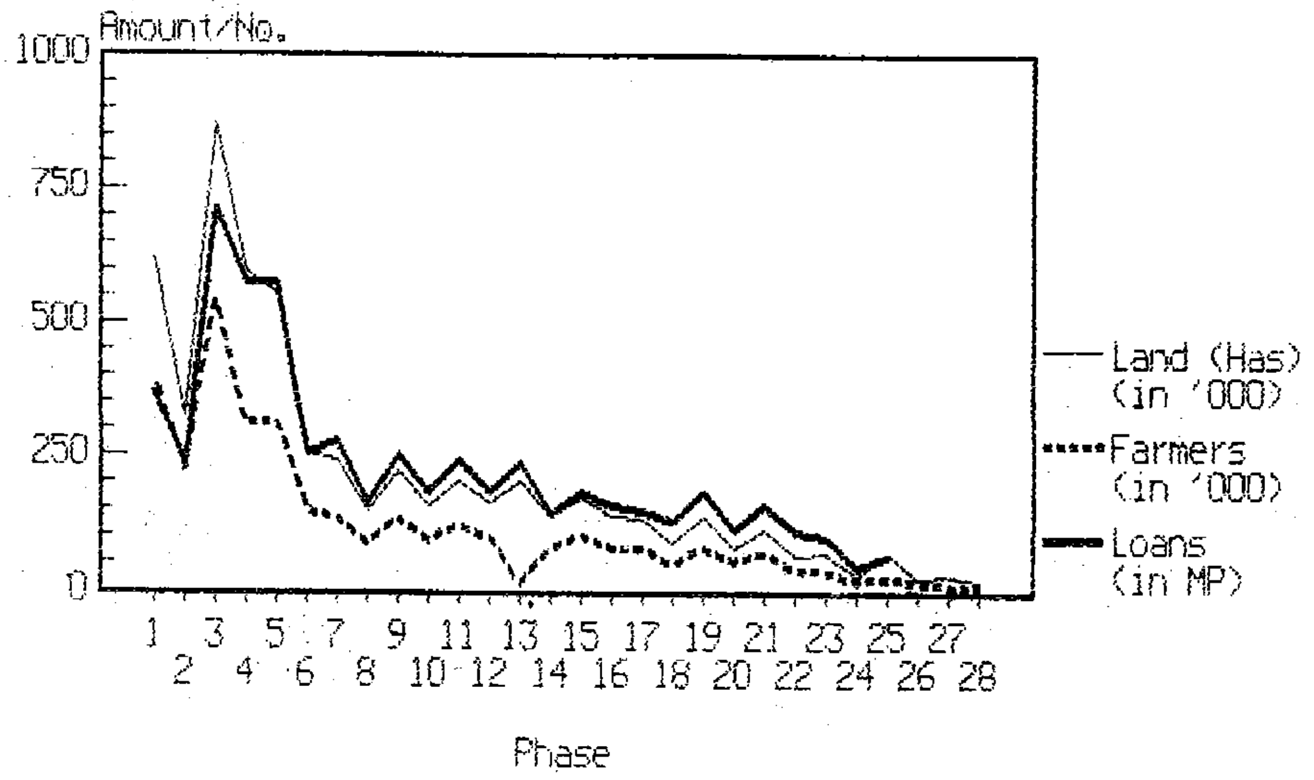

Fig. 6A. MASAGANA 99 PROGRAM: NOMINAL & REAL VALUES OF LOANS GRANTED Phases 1-25 (CY 1973-86)

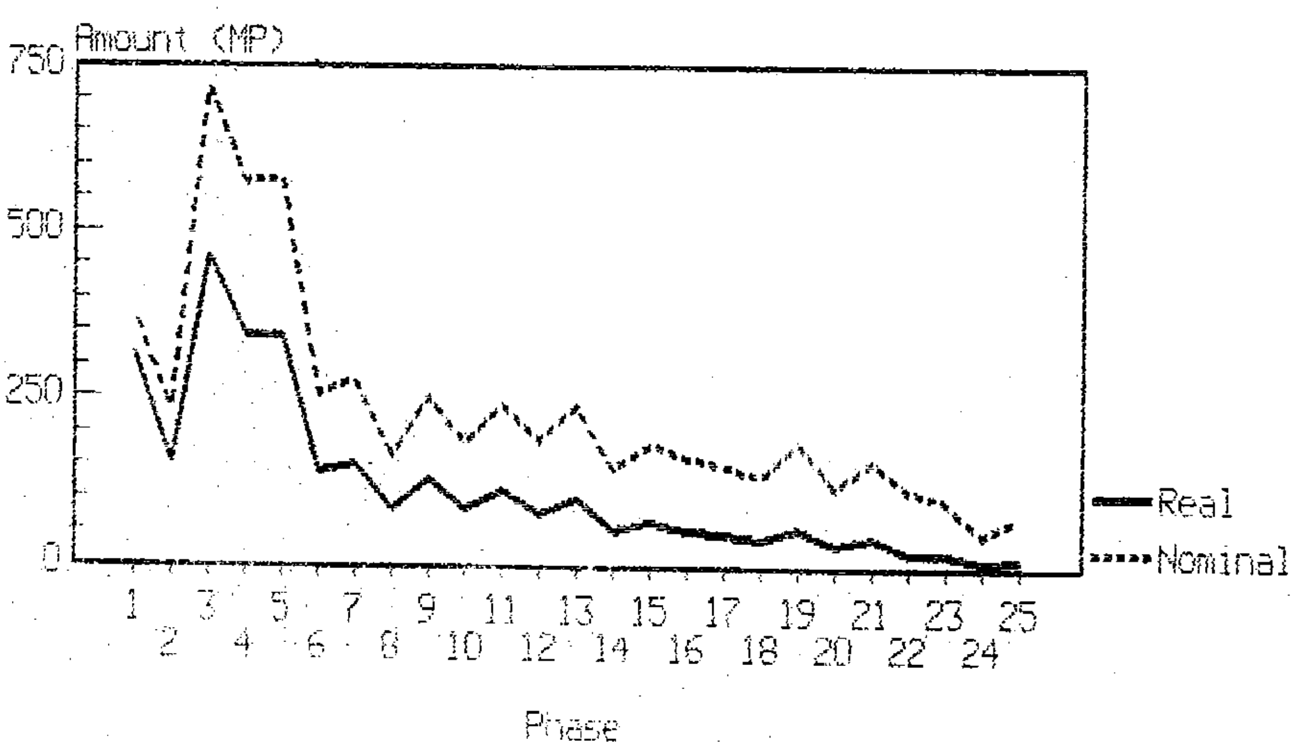

Fig. 7. NOMINAL & REAL VALUES, TOTAL LOANS OUTSTANDING OF DEPOSIT MONEY BANKS, 1970-1986

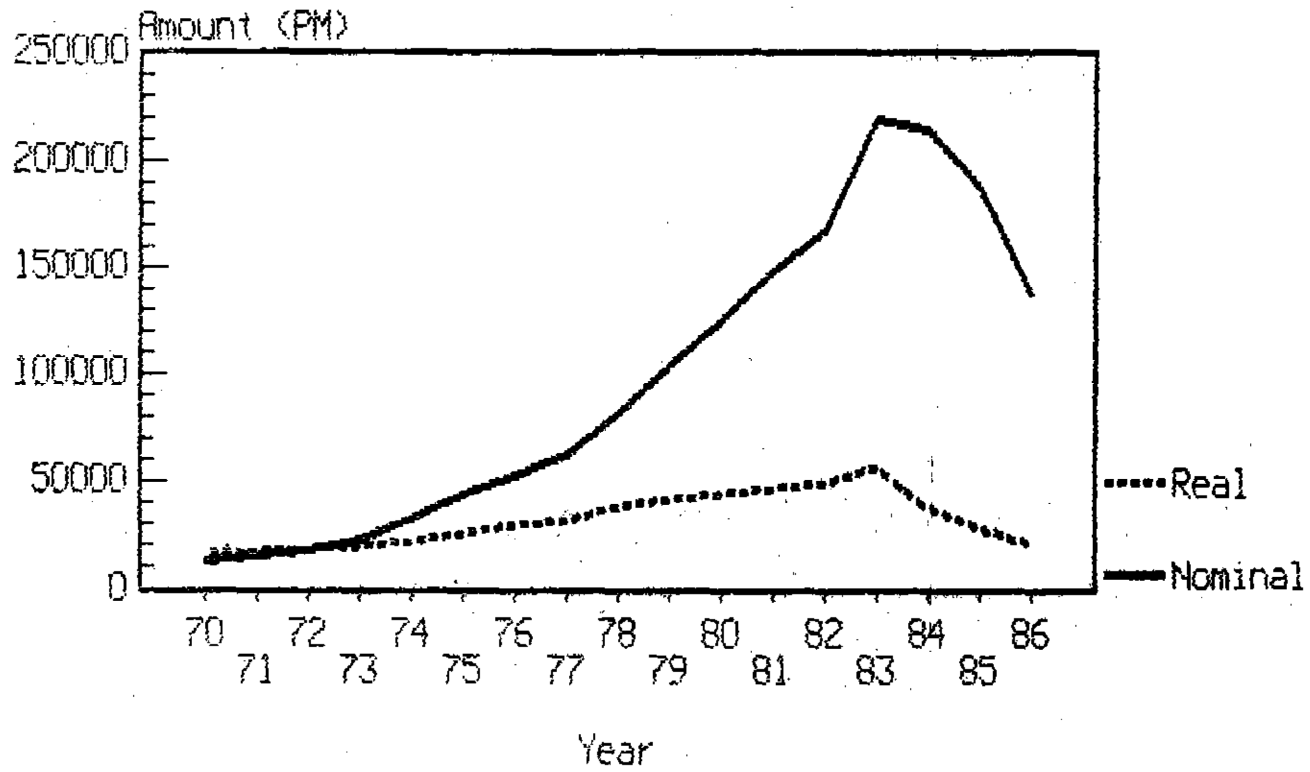

Fig. 7A. ANNUAL GROWTH RATES OF NOMINAL & REAL VALUES, TOTAL LOANS OUTSTANDING OF DEPOSIT MONEY BANKS, 1971-86

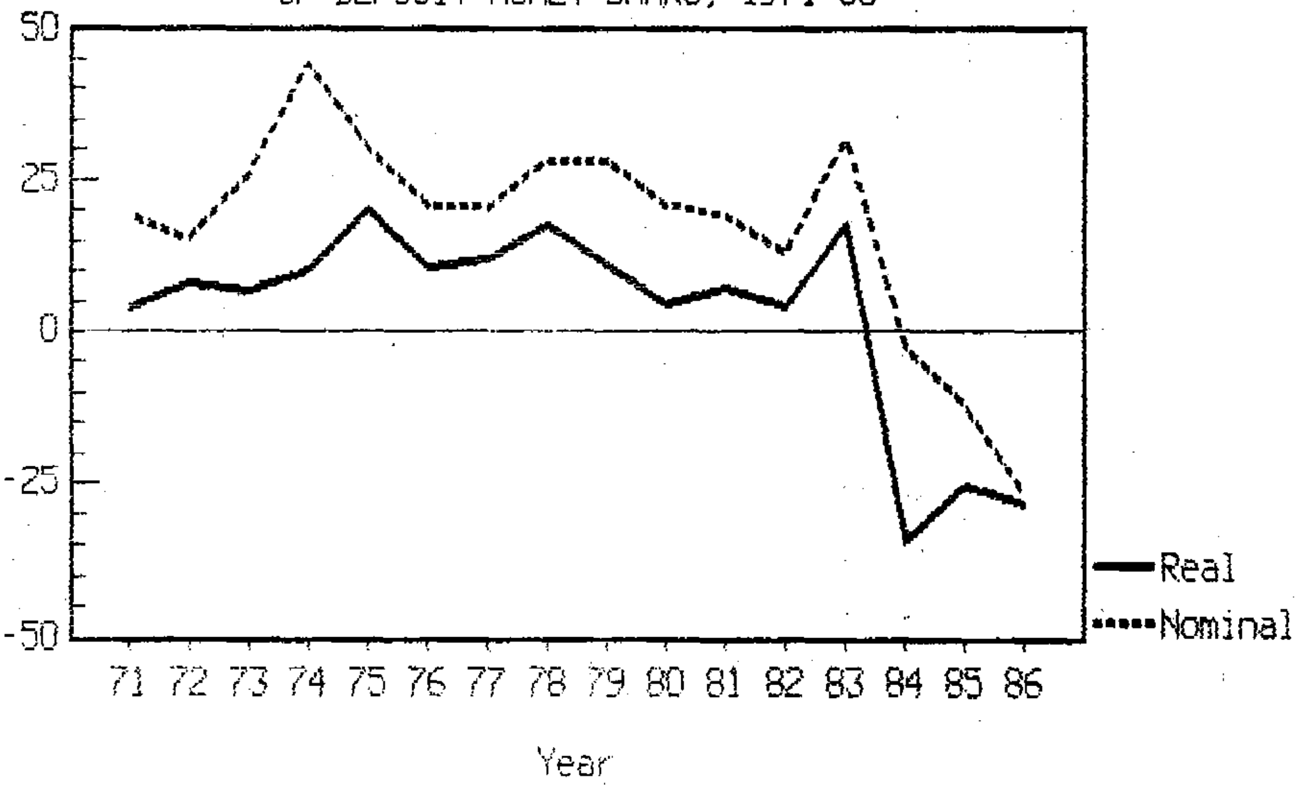

Fig. 8. RATIOS TO GNP OF BALANCE OF PAYMENTS, CURRENT ACCOUNT BALANCE, AND BUDGET SURPLUS/DEFICITS, 1970-86

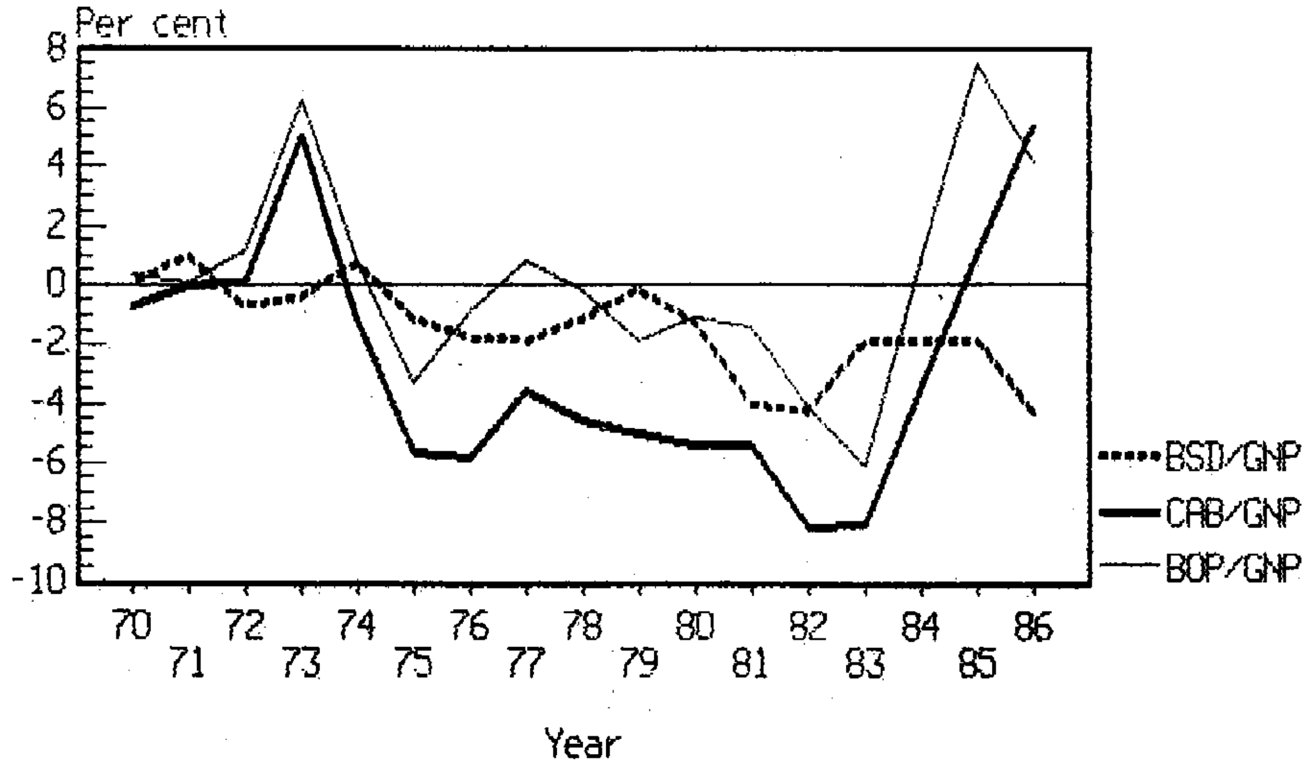

Fig. 9. GNP GROWTH RATE & INFLATION RATE 1970-1986